

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, OCTOBER 30, 2007**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, October 30, 2007, commencing at 7:05 a.m.

A. ROLL CALL

Present: Council Members – Hansen, Hitchcock, Katzakian, Mounce, and Mayor Johnson

Absent: Council Members – None

Also Present: City Manager King, City Attorney Schwabauer, and City Clerk Johl

B. TOPIC(S)

B-1 "Presentation of Various Elements of 2007 Wastewater Certificates of Participation for up to \$35 Million"

City Manager King briefly introduced the subject matter of wastewater system revenue certificates of participation and the members of the financing team.

Consultant Eileen Gallagher provided a PowerPoint presentation regarding the wastewater certificates of participation and related financing. Specific topics of discussion included an overview of the 2007 financing including security, ratings and bond insurance, interest rate trends, financing details, financing team, approvals requested, wrap up, and next steps.

In response to Council Member Hansen, Ms. Gallagher stated reserves can be handled in a few different ways because the insurance is providing multiple bid options to address security and cash reserves.

In response to Council Member Hitchcock, Ms. Gallagher confirmed that the approximate reserve amount is \$2.6 million.

In response to Council Member Hitchcock, Ms. Gallagher stated that, by lowering the principal, the issuance costs that are variable will be lower.

In response to Mayor Johnson, Ms. Gallagher stated there is a strong chance that the federal government will lower interest rates again and the future should be positive. She also explained that the pricing over 30 years involves serial maturities and longer term bonds on the end so that the City can enjoy a benefit in lower costs and interest rates.

In response to Council Member Hitchcock, Ms. Gallagher stated the interest rate is fixed in the beginning and monthly debt service remains relatively the same for six months.

In response to Council Member Hitchcock, Ms. Gallagher stated the prepayment provisions are not set in stone, but it is customary to have bonds callable in ten years time and it is anticipated this will be the case for the current issue. She stated the previous financing had a sliding scale and the payment is approximately 1.5%.

In response to Mayor Johnson, Ms. Gallagher stated the A- stable rating is good and the highlights are a stable customer base with diversity in customers and the economy, as well as some understanding of the environmental litigation and stable growth control.

In response to Council Member Hitchcock, Ms. Gallagher stated the proposed financing is a standard and strong financing for wastewater with no unusual circumstances. City Attorney Schwabauer stated the low interest rate is standard, not contingent, and the bonds can be sold to a variety of investors. He stated there is nothing unique about the financing.

City Manager King provided a brief overview of the difference between issuing certificates of participation through a stand-alone financing corporation and issuing revenue bonds through a financing authority, with the latter being a bit advantageous in saving a step in the overall process.

In response to Council Member Hitchcock, Mr. Schwabauer stated creating a financing authority can be looked into.

In response to Council Member Hansen, Mr. Krueger stated the rate increase from a few years ago, the debt service requirements, and this issue should cover the related costs without a need for an additional increase. Mr. Krueger stated there may be a need to come back to Council at a later date regarding the unanticipated costs associated with the transmission lines.

In response to Council Member Hansen, Mr. Prima stated the 2003-04 total was approximately \$30 million, \$10 million will be refunded, and about \$50 million will be financed.

Discussion ensued between Council Member Hitchcock and City Manager King regarding debt service, cash reserves, alternatives associated with using a surety in lieu of cash reserves, trends regarding the same, and the option of doing a mixed reserve.

In response to Mayor Johnson, Ms. Gallagher stated the timeline will not be affected greatly if the Council desires to take a bit more time to determine if it would like to use a surety or cash reserve.

In response to Council Member Hansen, Mr. Krueger stated that, from an administrative standpoint, the surety is better because of the heavy tracking element associated with cash reserves. He also stated a cash reserve would be shown as restricted and unusable.

In response to Mayor Johnson, Ms. Gallagher stated there is an AAA related backing for both the insurance and the bonds.

City Manager King stated that, while Fitch did give the City a bump in ratings, it also put some consideration into the environmental litigation and the payment of some related costs from the water and wastewater funds. Mr. King stated the matter will come before the City Council on November 7 and the policy issue to be decided appears to be whether a surety or cash reserve should be utilized.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:00 a.m.

ATTEST:

Randi Johl
City Clerk



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Presentation of Various Elements of 2007 Wastewater Certificates of Participation (COP) for up to \$35 million.

MEETING DATE: October 30, 2007

PREPARED BY Deputy City Manager

RECOMMENDED ACTION: Receive presentation of various elements of 2007 Wastewater Certificates of Participation (COP) for up to \$35 million.


BACKGROUND INFORMATION: In August 2007, the City Council approved the assembly of the financing team to implement the issuance of the 2007 COP for the Wastewater Treatment Plant upgrades. The work has gone very well and this COP issue has been given an A- by both of the rating agencies (Standard and Poor and Fitch). This is an indication that the Wastewater Utility operation is financially healthy and that there are sufficient resources available to finance phase 3 of the wastewater plant improvements. The details of the financing

The financing team comprised of Stone and Youngberg (Managing Investment Banker), Bear Stearns (Co-Managing Investment Banker), Orrick Harrington (Bond Counsel) and Lamont Financial Services (Financial Advisor) have been working with City of Lodi staff over the course of the last two months to implement the 2007 COP. The attached Preliminary Official Statement reflects the major elements of the COP and will be explained in more detail at the October 30, 2007 meeting.

Eileen Gallagher, Managing Director from the San Francisco office of Stone & Youngberg will walk through the major elements of the financing on Tuesday morning. In addition to Eileen Gallagher, Scott Sollers and Stephanie Hansen will be available from Stone & Youngberg and Tom Dunphy (manager of Lamont Financial Services) will be present to field any questions you may have about the COP.

In summary, you will be asked to approve the 2007 Wastewater COP on November 7, 2007. We will present the major elements of the COP at the meeting on October 30.

FISCAL IMPACT: Not Applicable


James R. Krueger, Deputy City Manager

Attachment

APPROVED:


Blair King, City Manager

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 8, 2007**NEW ISSUE - FULL BOOK-ENTRY ONLY****Ratings:**
(See "Ratings")

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the City, based on an analysis of existing laws, regulations, rulings and court decisions and assuming, among other things, the accuracy of certain representations and compliance with certain covenants, the portion of each Installment Payment designated as and constituting interest paid by the City under the Installment Purchase Agreement and received by the Owners of the 2007 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, the portion of each Installment Payment designated as and constituting interest paid by the City under the Installment Purchase Agreement and received by the Owners of the 2007 Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest evidenced by, the 2007 Certificates. See "TAX MATTERS".

\$32,000,000^{*}

**Wastewater System Revenue Certificates of Participation, 2007 Series A
Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
CITY OF LODI, CALIFORNIA**

Dated: Date of Delivery**Due: October 1, as set forth on the inside front cover**

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth in this Official Statement.

The Wastewater System Revenue Certificates of Participation, 2007 Series A (the "2007 Certificates") evidence the proportionate interests of the Owners thereof in Installment Payments (the "Installment Payments") to be made by the City of Lodi, California (the "City") under the terms of an Installment Purchase Agreement, dated as of December 1, 2007 (the "Installment Purchase Agreement"), between the City and the Lodi Public Improvement Corporation (the "Corporation"). Pursuant to the Installment Purchase Agreement, the City is obligated to make the Installment Payments to the Corporation from System Net Revenues of the City's wastewater collection, treatment and disposal system (the "System"). See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 CERTIFICATES".

The 2007 Certificates are being sold to provide funds (i) to finance the costs of certain improvements to the System, (ii) to allow the City to prepay outstanding installment payment obligations of the City and, as a result, to cause immediate defeasance of the outstanding Certificates of Participation (1991 Wastewater Treatment Plant Expansion Refunding Project) (the "1991 Certificates"), (iii) to [fund a deposit to a reserve fund] [pay the premium for a debt service reserve fund surety bond] for the 2007 Certificates, and (iv) to pay costs of delivery of the 2007 Certificates. See "THE FINANCING PLAN".

The 2007 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of December 1, 2007 (the "Trust Agreement"), between the Corporation and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The 2007 Certificates will be delivered in fully registered form, and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the 2007 Certificates. Purchasers of interests in the 2007 Certificates will not receive securities certificates representing their interests in the 2007 Certificates purchased. Principal, premium, if any, and interest evidenced by the 2007 Certificates are payable by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2007 Certificates, as described in this Official Statement. The 2007 Certificates are deliverable in denominations of \$5,000 or any integral multiple thereof. Interest evidenced by the 2007 Certificates will be payable semiannually on April 1 and October 1 of each year, commencing April 1, 2008.

The 2007 Certificates are subject to prepayment prior to their stated maturity dates, as more fully described in this Official Statement. See "THE 2007 CERTIFICATES—Prepayment Provisions".

The scheduled payment of principal and interest evidenced by the 2007 Certificates when due will be guaranteed under a financial guaranty insurance policy to be issued by _____ simultaneously with the delivery of the 2007 Certificates.

^{*} Preliminary; subject to change.

[logo]

The obligation of the City to make the Installment Payments is a special obligation of the City that is secured by a pledge of and payable solely from System Net Revenues. The general fund of the City is not liable for, and neither the faith and credit nor the taxing power of the City is pledged to, the payment of the Installment Payments.

The pledge of System Net Revenues to the Installment Payments is on a parity with the pledge of System Net Revenues to certain outstanding obligations, which will be outstanding in the principal amount of \$28,690,000 following defeasance of the 1991 Certificates with proceeds of the 2007 Certificates (the "Existing Parity Obligations"). See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 CERTIFICATES - Outstanding Parity Obligations". The City is also authorized under the Installment Purchase Agreement to incur other obligations payable from System Net Revenues on a parity with the Installment Payments.

The 2007 Certificates are offered when, as and if executed and delivered to the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Jones Hall, A Professional Law Corporation, San Francisco, California, and for the City and the Corporation by the City Attorney of the City. It is expected that the 2007 Certificates in definitive form will be available for delivery in New York, New York through the DTC book-entry system on or about December 5, 2007.

STONE & YOUNGBERG LLC BEAR, STEARNS & CO. INC.

Dated: November __, 2007

MATURITY SCHEDULE

Maturity Date (October 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP† (540279)	Maturity Date (October 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP† (540279)
2008					2016				
2009					2017				
2010					2018				
2011					2019				
2012					2020				
2013					2021				
2014					2022				
2015									

\$ ____ % Term Certificate due October 1, 2037, Price: ____% CUSIP† No. ____

^(†) Priced to par call on October 1, ____.

† Copyright 2007, American Bankers Association. CUSIP data are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the City nor the Underwriters assume any responsibility for the accuracy of these CUSIP data.

CITY OF LODI, CALIFORNIA

City Council

Bob Johnson, Mayor
JoAnne Mounce, Mayor Pro Tempore
Larry D. Hansen, Council Member
Susan Hitchcock, Council Member
Phil Katzakian, Council Member

City Officials

Blair King, City Manager
Jim Krueger, Deputy City Manager
Randi Johl, City Clerk
D. Stephen Schwabauer, City Attorney
Richard C. Prima, Jr., Public Works Director
Charles E. Swimley Jr., Water Services Manager

LODI PUBLIC IMPROVEMENT CORPORATION

Board of Directors

Bob Johnson
JoAnne Mounce
Larry D. Hansen
Susan Hitchcock
Phil Katzakian

SPECIAL SERVICES

Special Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Financial Advisor

Lamont Financial Services Corp.
Los Angeles, California

Trustee

The Bank of New York Trust Company, N.A.
San Francisco, California

Verification Agent

Causey Demgen & Moore Inc.
Denver, Colorado

Escrow Bank

U.S Bank National Association
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriters to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2007 Certificates by a person in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Statements contained in this Official Statement that include forecasts, estimates or matters of opinion, whether or not expressly stated as such, are intended solely as such and are not to be construed as representations of fact. The information set forth in this Official Statement has been furnished by the City and by other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as representations by the Underwriters. The information and expressions of opinions in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall create, under any circumstances, any implication that there has been no change in affairs of the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE 2007 CERTIFICATES, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2007 CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "project," "expect," "anticipate," "intend," "believe," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as specifically set forth in this Official Statement, the City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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OFFICIAL STATEMENT

Relating to

\$32,000,000*

Wastewater System Revenue Certificates of Participation, 2007 Series A Evidencing the Proportionate Interests of the Owners Thereof in Certain Installment Payments to be Made by the CITY OF LODI, CALIFORNIA

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the 2007 Certificates to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See "APPENDIX D – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS".

Purpose of this Official Statement

The purpose of this Official Statement (which includes the cover page and the appendices attached hereto) is to provide certain information concerning the sale and delivery of the above-titled Certificates of Participation (the "**2007 Certificates**"). The 2007 Certificates evidence the proportionate interests of the registered owners (the "**Owners**") thereof in installment payments (the "**Installment Payments**") to be made by the City of Lodi, California (the "**City**") under the terms of an Installment Purchase Agreement, dated as of December 1, 2007 (the "**Installment Purchase Agreement**"), between the City and the Lodi Public Improvement Corporation (the "**Corporation**").

The 2007 Certificates

The 2007 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of December 1, 2007 (the "**Trust Agreement**"), between the Corporation and The Bank of New York Trust Company, N.A., as trustee (the "**Trustee**").

Purpose of the 2007 Certificates

The 2007 Certificates are being sold to provide funds for the following purposes:

- (i) to finance the costs of certain improvements to the wastewater collection, treatment and disposal system of the City (the "**System**") (see "THE 2007 PROJECT AND THE SYSTEM CAPITAL PLAN"),
- (ii) to allow the City to prepay certain outstanding installment payment obligations of the City (the "**1991 Installment Payments**") and, as a result, to cause a redemption of the outstanding Certificates of Participation (1991 Wastewater Treatment Plant Expansion Refunding Project) (the "**1991 Certificates**"),

* Preliminary; subject to change.

- (iii) to [fund a deposit to a reserve fund] [pay the premium for a debt service reserve fund surety bond] for the 2007 Certificates, and
- (iv) to pay costs of delivery of the 2007 Certificates.

See "THE FINANCING PLAN".

Security and Sources of Payment for the 2007 Certificates

Pledge of System Net Revenues. The obligation of the City to make the Installment Payments pursuant to the Installment Purchase Agreement is a special obligation of the City secured by a pledge of and payable solely from System Net Revenues.

The obligation of the City to make the Installment Payments does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Existing Parity Obligations. The City's pledge of System Net Revenues to the Installment Payments is on a parity with the City's pledge of System Net Revenues to certain outstanding obligations (the 2003 Installment Payments and the 2004 Installments Payments, as defined below), which are outstanding in the aggregate principal amount of \$28,690,000 as of October 2, 2007 (the "**Existing Parity Obligations**"). The 1991 Installment Payments, which will be defeased in their entirety with proceeds of the 2007 Certificates on the date of execution and delivery of the 2007 Certificates, were outstanding in the principal amount of \$8,575,000 as of October 2, 2007. See "THE FINANCING PLAN" and "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 CERTIFICATES - Outstanding Parity Obligations".

Additional Parity Obligations. The City may incur additional obligations payable from and secured by the System Net Revenues on a parity with the Installment Payments and the Existing Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 CERTIFICATES - Additional Parity Debt".

Parity Debt. The Existing Parity Obligations, the Installments Payments and any future Parity Obligations are referred to as Parity Debt in this Official Statement.

Rate Covenant

The City covenants in the Installment Purchase Agreement that it will, to the maximum extent permitted by law, fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Net Revenues during such Fiscal Year equal to at least 110% of the Annual Debt Service in such Fiscal Year; provided, an adjustment will be made to the amount of System Net Revenues for amounts deposited into or withdrawn from the Rate Stabilization Fund, provided that, for purposes of such calculation, the amount of System Net Revenues before any credits for transfers from the Rate Stabilization Fund to the System Revenue Fund may not be less than 100% of Annual Debt Service for such Fiscal Year. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 Certificates—Rate Covenant".

Reserve Fund

A Reserve Fund is established with the Trustee pursuant to the Trust Agreement in an amount equal to the "**Reserve Fund Requirement**" (as defined in the Trust Agreement).

Amounts on deposit in the Reserve Fund will be applied to pay principal and/or interest evidenced by the 2007 Certificates in the event amounts on deposit in the Debt Service Fund are insufficient for that purpose.

In lieu of funding the Reserve Fund with cash or in replacement of amounts then on deposit in the Reserve Fund, there may be credited to the Reserve Fund a Reserve Policy in an amount, together with moneys to remain on deposit therein, equal to the Reserve Fund Requirement. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 Certificates - Reserve Fund".

Certificate Insurance

The scheduled payment of principal and interest evidenced by the 2007 Certificates when due will be guaranteed under a financial guaranty insurance policy (the "**Policy**") to be issued by _____ (the "**Insurer**") simultaneously with the delivery of the 2007 Certificates. See "CERTIFICATE INSURANCE".

Continuing Disclosure

The City has covenanted for the benefit of the Owners and beneficial owners of the 2007 Certificates to provide certain financial information and operating data relating to the City and the System annually, and to provide notices of the occurrence of certain enumerated events, if material. See "CONTINUING DISCLOSURE".

Other Matters

This Official Statement speaks only as of its date, and the information and expressions of opinions contained in this Official Statement are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder, under any circumstances, shall create any implication that there has been no change in the affairs of the City or the System since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

The summaries of and references to documents, statutes, reports and other instruments referred to in this Official Statement do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined in this Official Statement indicates that such word is defined in a particular agreement or other document and, as used in this Official Statement, has the meaning given it in such agreement or document. See "APPENDIX D – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS".

Copies of the Trust Agreement and the Installment Purchase Agreement are available for inspection at the City Hall of the City in Lodi, California, and will be available from the Trustee upon request and payment of duplication costs.

THE FINANCING PLAN

The 2007 Certificates are being executed and delivered to provide funds (i) to allow the City to prepay the outstanding 1991 Installment Payments and, as a result, to cause a redemption of the outstanding 1991 Certificates, (ii) to finance the costs of certain improvements to the System, (iii) to fund a deposit to a reserve fund for the 2007 Certificates, and (iv) to pay costs of delivery of the 2007 Certificates.

Refinancing of the 1991 Certificates

The City previously caused execution and delivery of the Certificates of Participation (1991 Wastewater Treatment Plant Expansion Refunding Project) (the "**1991 Certificates**") outstanding, as of October 2, 2007, in the principal amount of \$8,575,000. The 1991 Certificates evidence proportionate interests in certain payments (the "**1991 Installment Payments**") to be made by the City pursuant to an Installment Sale Agreement, dated as of December 1, 1991 (the "**1991 Installment Sale Agreement**"), between the City and the Corporation.

The City will cause a portion of the sale proceeds of the 2007 Certificates to be used to immediately defease the outstanding 1991 Certificates by funding the outstanding principal component of the 1991 Certificates to be redeemed on February 1, 2008, plus accrued interest to February 1, 2008, plus a premium equal to 1.5% of the total principal amount to be redeemed.

The City and U.S. Bank National Association, as trustee with respect to the 1991 Certificates (the "**Escrow Bank**"), will enter into an Escrow Deposit Agreement (the "**Escrow Agreement**") under which the Escrow Bank will establish an Escrow Fund (the "**Escrow Fund**"), into which a portion of the proceeds of the 2007 Certificates and other available funds held for the 1991 Certificates will be deposited concurrently with the execution and delivery of the 2007 Certificates.

Cash sufficient to defease the 1991 Certificates will be deposited in the Escrow Fund, and the cash may be invested in non-callable federal securities. Sufficiency of the cash to defease the 1991 Certificates will be verified by Causey Demgen & Moore Inc., Denver, Colorado ("**Verification Agent**"). Any interest earnings on amounts in the Escrow Fund will be available for transfer to the Improvement Fund on February 1, 2008. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" below.

Financing of the 2007 Project

Proceeds of the 2007 Certificates will be used to finance capital improvements to the System. The City currently expects the improvements to include the following:

- Phase 3 improvements to the City's White Slough Water Pollution Control Facility (the "**White Slough Facility**"). Phase 3 improvements include headworks improvements, acquisition and installation of an additional digester, two additional aeration basins, an additional secondary clarifier and improvements to the control room. These improvements are intended to improve de-nitrification and restore the facility's permitted treatment capacity to 8.5 mgd. The Phase 3 improvements are expected to cost approximately \$20.6 million, and will be funded with proceeds of the 2007 Certificates and with remaining proceeds of the

2004 Certificates (as defined in "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 CERTIFICATES – Outstanding Parity Obligations"). The City commenced work on the Phase 3 improvements in April 2007 and expects to complete the Phase 3 improvements by March 2009.

- The City expects to undertake additional capital projects for the System, including rehabilitation of the main trunk line from the White Slough Facility to the City, which the City expects will not cost more than \$7.75 million. On October 17, 2007, the City Council declared a local state of emergency, dispensed with bidding requirements and authorized the City Manager to negotiate a contract change order with the contractor performing the Phase 3 work to include the pipeline rehabilitation. The City is in the process of filing a Notice of Exemption under the California Environmental Quality Act ("CEQA") and expects the pipeline rehabilitation to be completed by Summer 2008. See "RISK FACTORS – Potential Liability Related to the Main Trunk Line".

Estimated Sources and Uses of Funds

The estimated sources and uses of funds with respect to the 2007 Certificates are as follows:

Sources:

Principal Amount of 2007 Certificates
Plus Net Original Issue Premium
Less Underwriters' Discount

Total Sources

Uses:

Deposit to Escrow Fund
Deposit to Improvement Fund
Deposit to Reserve Fund⁽¹⁾
Costs of Issuance⁽²⁾

Total Uses

⁽¹⁾ Represents an amount equal to the Reserve Fund Requirement.

⁽²⁾ Includes legal, financing and consulting fees, Trustee's fees, printing costs, rating agency fees, bond insurance premium and other costs incurred in connection with the delivery of the 2007 Certificates.

The schedule of Installment Payments and the City's payments obligations under existing Parity Debt (assuming no optional prepayments) is set forth below:

(1) Reflects the 2003 Installment Payments and the 2004 Installment Payments.

THE 2007 CERTIFICATES

General

The 2007 Certificates will be prepared as one fully registered securities certificate for each maturity, and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2007 Certificates. Principal, prepayment premium, if any, and interest evidenced by the 2007 Certificates are payable by the Trustee to DTC, which is obligated in turn to remit such principal, prepayment premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2007 Certificates. See "APPENDIX C – BOOK-ENTRY ONLY SYSTEM".

The 2007 Certificates will be delivered in authorized denominations of \$5,000 or any integral multiple thereof. Interest evidenced by the 2007 Certificates is payable on April 1, 2008 and semiannually thereafter, on each April 1 and October 1 (each, an "Interest Payment Date" for the 2007 Certificates), computed on the basis of a 360-day year comprised of twelve 30-day months. The 2007 Certificates will be dated the date of delivery thereof, will mature on the dates and in the principal amounts and will evidence interest at the rates, all as set forth on the inside front cover of this Official Statement.

Prepayment Provisions

Optional Prepayment. The 2007 Certificates maturing on or prior to October 1, _____ are not subject to optional prepayment prior to their stated maturity dates. The 2007 Certificates maturing on and after October 1, _____ are subject to prepayment prior to their stated maturity dates, on any date on or after October 1, _____, as a whole or in part, at the option of the City, from any source of available funds, at a prepayment price equal to 100% of the principal amount of 2007 Certificates or portions thereof to be prepaid, plus unpaid accrued interest thereon to the date fixed for prepayment, without a prepayment premium.

Mandatory Sinking Fund Prepayment. The 2007 Certificates maturing on October 1, _____, are subject to mandatory prepayment prior to maturity, in part by lot, commencing on October 1, _____ and on each October 1, thereafter to and including October 1, _____, from scheduled Installment Payments made by the City on such dates at a prepayment price equal to the principal amount of the 2007 Certificates to be prepaid, plus accrued interest thereon to the date fixed for prepayment according to the following schedule:

Prepayment Date
(October 1)

\$

Principal
Amount

* Maturity

The amount of each such prepayment shall be reduced as provided in the Installment Purchase Agreement in the event and to the extent of any and all optional prepayments, or purchases for retirement, of 2007 Certificates maturing on October 1, ____.

The 2007 Certificates maturing on October 1, ____, are subject to mandatory prepayment prior to maturity, in part by lot, commencing on October 1, ____ and on each October 1, thereafter to and including October 1, ____, from scheduled Installment Payments made by the City on such dates at a prepayment price equal to the principal amount of the 2007 Certificates to be prepaid, plus accrued interest thereon to the date fixed for prepayment according to the following schedule:

Prepayment Date <u>(October 1)</u>	Principal <u>Amount</u>
	\$

* Maturity

The amount of each such prepayment shall be reduced as provided in the Installment Purchase Agreement in the event and to the extent of any and all optional prepayments, or purchases for retirement, of 2007 Certificates maturing on October 1.

Notice of Prepayment. Notice of prepayment of 2007 Certificates shall be mailed by the Trustee not less than thirty (30) days nor more than sixty (60) days prior to the prepayment date to (i) the respective Owners of the 2007 Certificates designated for prepayment at their addresses as shown on the registration books maintained by the Trustee, (ii) the Securities Depositories, and (iii) one or more Information Services. Each notice of prepayment shall state the date of such notice, prepayment price, the place of prepayment, the CUSIP number, if any, and if less than all of the 2007 Certificates of any one maturity are to be prepaid, the distinctive certificate numbers of the 2007 Certificates to be prepaid, and in the case of 2007 Certificates to be prepaid in part only, the respective portions of the principal amount thereof to be prepaid. Each such notice shall also state that on said date there will become due and payable on each of said 2007 Certificates the prepayment price thereof or of said specified portion of the principal amount thereof to be prepaid and that from and after such prepayment date interest with respect thereto shall cease to accrue, and shall require that such 2007 Certificates be then surrendered. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such prepayment.

In the event of prepayment of 2007 Certificates (other than mandatory prepayment), the Trustee will mail a notice of prepayment upon receipt of a Written Request of the City but only after the City files a Certificate of the City with the Trustee that, on or before the date set for prepayment, the City will deposit with or otherwise make available to the Trustee for deposit in the Debt Service Fund the money required for payment of the prepayment price, including accrued interest evidenced thereby, of all 2007 Certificates then to be called for prepayment (or the Trustee determines that money will be deposited with or otherwise made available to it in sufficient time for such purpose), together with the estimated expense of giving such notice.

Unless the book-entry only system shall have been discontinued, the Corporation, the City and the Trustee will recognize only DTC or its nominee as an Owner. Conveyance of notices and other communications by DTC to DTC Participants and by DTC Participants to beneficial owners will be governed by arrangements between them, subject to any statutory and regulatory requirements as may be in effect from time to time.

Selection of Certificates for Prepayment. If less than all Outstanding 2007 Certificates of any particular maturity are to be prepaid at any one time, the Trustee shall select the 2007 Certificates or the portions of the 2007 Certificates of such maturity to be prepaid by lot in a manner which the Trustee deems to be fair. For purposes of selecting 2007 Certificates to be prepaid, 2007 Certificates shall be deemed to be composed of \$5,000 multiples and any such multiple of principal amount may be separately prepaid, subject to the requirement that the unpaid balance of any 2007 Certificate prepaid in part must be in an authorized denomination. As long as the 2007 Certificates are held in the book-entry only system, selection of 2007 Certificates for prepayment will be governed by DTC procedures.

Effect of Prepayment. If notice of prepayment has been duly given as aforesaid, and money for the payment of the prepayment price of the 2007 Certificates (or portions thereof) so called for prepayment is held by the Trustee, then on the prepayment date designated in such notice, the 2007 Certificates (or portions thereof) so called for prepayment shall become due and payable, and from and after the prepayment date so designated, interest with respect to the 2007 Certificates (or portions thereof) so called for prepayment shall cease to accrue, such 2007 Certificates (or portions thereof) shall cease to be entitled to any benefit or security under the Trust Agreement and the Installment Purchase Agreement, and the Owners of such 2007 Certificates shall have no rights in respect thereof except to receive payment of the prepayment price thereof from the money held by the Trustee for such purpose.

SECURITY AND SOURCES OF PAYMENT FOR THE 2007 CERTIFICATES

Installment Payments

The 2007 Certificates evidence the proportionate interests of the Owners in the Installment Payments to be made by the City pursuant to the Installment Purchase Agreement. The Installment Purchase Agreement provides that the City's obligation to make the Installment Payments from System Net Revenues is absolute and unconditional, and, until such time as the Installment Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the Installment Purchase Agreement), the City will not discontinue or suspend any Installment Payment required to be paid by the City under the Installment Purchase Agreement, whether or not the System or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such Installment Payments shall be net payments to the Corporation and shall not be subject to deduction, abatement, reduction or diminution, whether by offset or otherwise, and shall not be conditional upon the performance or nonperformance by any party to any agreement or for any other cause whatsoever. Notwithstanding anything to the contrary contained in the Installment Purchase Agreement, the City shall not be required to advance any moneys derived from any source of income other than the System Net Revenues for the payment of the Installment Payments or for the performance of any agreements or covenants required to be performed by it contained in the Installment Purchase Agreement.

Pursuant to the Trust Agreement, the Corporation transfers, assigns and sets over to the Trustee all of the Installment Payments and any and all rights, title, interest and privileges it has in, to and under the Installment Purchase Agreement (other than its rights to expenses and indemnification), including without limitation, the right to collect and receive directly all of the Installment Payments and the right to enforce the provisions of the Installment Purchase Agreement. The City consents to such assignment in the Installment Purchase Agreement and agrees to make payments of the Installment Payments directly to the Trustee. Under the Trust Agreement, the Trustee is to take all steps, actions and proceedings required to be taken, as provided in an opinion of counsel delivered to the Trustee, reasonably necessary to maintain in force for the benefit of the Owners of the 2007 Certificates the Trustee's rights in and priority to the security granted to it for the payment of the Installment Payments as assignee of the Installment Payments and all of the Corporation's rights, title, interest and privileges in, to and under the Installment Purchase Agreement (other than its rights to indemnification and expenses), and all other rights and property which the Trustee may receive in the future as security for the 2007 Certificates. The Trustee is entitled to indemnification and expenses before taking such action as provided in the Trust Agreement.

The Trust Agreement provides that all of the Installment Payments received by the Trustee shall be deposited immediately in the Debt Service Fund. All of the Installment Payments are to be held in trust by the Trustee for the benefit of the Owners of the 2007 Certificates and shall be disbursed and applied only as provided in the Trust Agreement.

Defined Terms

For the purposes of the Trust Agreement and the Installment Purchase Agreement, the following terms are given the following meanings:

"System Net Revenues" means, for any period, System Revenues less Operation and Maintenance Costs for such period; provided that certain adjustments in the amount of System Net Revenues for a Fiscal Year may be made in connection with amounts deposited in and transferred from the Rate Stabilization Fund.

"System Revenues" is defined under the Installment Purchase Agreement as all gross income and revenue received or receivable by the City from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, including all fees (including connection fees), rates, charges and all amounts paid under any contracts received by or owed to the City in connection with the operation of the System and all proceeds of insurance relating to the System and investment income allocable to the System and all other income and revenue howsoever derived by the City from the ownership or operation of the System or arising from the System. System Revenues for any Fiscal Year shall include, for the purposes permitted by the Installment Purchase Agreement, amounts transferred to the System Revenue Fund from the Rate Stabilization Fund during such Fiscal Year.

"Operation and Maintenance Costs" means the reasonable and necessary costs paid or incurred by the City for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the System in good repair and working order, including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Trust Agreement or of any resolution authorizing the execution of any Parity Obligations, such as compensation, reimbursement and indemnification of the Trustee and the Corporation, fees and expenses of

Independent Certified Public Accountants and deposits to the Rebate Fund; but excluding in all cases (i) payment of Parity Debt and Subordinate Obligations, (ii) costs of capital additions, replacements, betterments, extensions or improvements which under Generally Accepted Accounting Principles are chargeable to a capital account, (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, (iv) City Administrative Costs (as defined in the Trust Agreement (the “**City Administrative Expenses**”)), and (v) transfers from the System Revenue Fund to other funds or accounts of the City.

The definition of Operation and Maintenance Costs is different than the definition originally included in the 2003 Installment Purchase Agreement (defined below) and the 2004 Installment Purchase Agreement (defined below). In September 2007, the City completed a study relating to the allocation of general fund administrative overhead to various City enterprise funds, including the System Revenue Fund. The definition of Operations and Maintenance Costs will be amended to exclude the payment of City Administrative Costs, which means those costs will be paid after the Installment Payments and any Parity Obligation Payments have been paid. Financial Security Assurance Inc., the insurer of the 2003 Bonds, and MBIA Insurance Corporation, the insurer of the 2004 Bonds, have consented to amending the definition of Operation and Maintenance Costs in the 2003 Installment Purchase Agreement and the 2004 Installment Purchase Agreement.

For definitions of additional terms used in the Installment Purchase Agreement and the Trust Agreement, see “APPENDIX D – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—CERTAIN DEFINITIONS”.

Pledge of System Net Revenues

Pursuant to the Installment Purchase Agreement, all System Net Revenues and all amounts on deposit in the System Revenue Fund are irrevocably pledged to the payment of the Installment Payments, as provided in the Installment Purchase Agreement. The Installment Purchase Agreement provides that such pledge, together with the pledge of System Net Revenues and amounts in the System Revenue Fund securing all other Parity Debt shall, subject to application as permitted in the Installment Purchase Agreement, constitute a first lien on System Net Revenues and amounts on deposit in the System Revenue Fund.

The obligation of the City to make the Installment Payments is a special obligation of the City payable solely from the System Net Revenues, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

See “Outstanding Parity Obligations” and “Additional Parity Debt” below.

Rate Covenant

The Installment Purchase Agreement provides that the City will, at all times until all Installment Payments have been fully paid or provision has been made therefor in accordance with the Installment Purchase Agreement, fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts during such Fiscal Year:

- (i) All current Operation and Maintenance Costs.
- (ii) The Installment Payments and all other Parity Obligation Payments and all payments on Subordinate Obligations as they become due and payable.
- (iii) All payments required for compliance with the terms of the Trust Agreement and the Installment Purchase Agreement, including restoration of the Reserve Fund to an amount equal to the Reserve Fund Requirement.
- (iv) All payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the System Revenues.

In addition, the City covenants that it will, to the maximum extent permitted by law, fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Net Revenues during such Fiscal Year equal to at least 110% of the Annual Debt Service in such Fiscal Year; provided an adjustment may be made to the amount of System Net Revenues for amounts deposited into or withdrawn from the Rate Stabilization Fund; provided that, for purposes of such calculation, the amount of System Net Revenues before any credits for transfers from the Rate Stabilization Fund to the System Revenue Fund may not be less than 100% of Annual Debt Service for such Fiscal Year.

Reserve Fund

General. Pursuant to the Trust Agreement, the Reserve Fund is to be held by the Trustee so long as the Installment Purchase Agreement has not been discharged in accordance with its terms or any 2007 Certificates remain Outstanding. The Reserve Fund is required to be maintained in an amount equal to the Reserve Fund Requirement (See "Application of System Revenues" below) pursuant to the Installment Purchase Agreement and the Trust Agreement.

"Reserve Fund Requirement" means, as of any date of determination, the least of (a) 10% of the initial offering price to the public of the 2007 Certificates as determined under the Code, or (b) the greatest annual debt service with respect to the Installment Payments in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Installment Payment is due, or (c) 125% of the sum of the annual debt service with respect to the Installment Payments for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the execution and delivery of the 2007 Certificates) and terminating with the last Fiscal Year in which any Installment Payment is due, divided by the number of such Fiscal Years, all as computed and determined by the City and specified in writing to the Trustee.

Reserve Policy. In lieu of funding the Reserve Fund with cash or in replacement of amounts then on deposit in the Reserve Fund, there may be credited to the Reserve Fund a debt service reserve municipal bond insurance policy or surety bond issued by a municipal bond insurer or a letter of credit issued by a bank or other institution provided that, at the time of delivery of such insurance policy, surety bond or letter of credit, the obligations insured by such insurer or the obligations of such bank or other institution payable on a parity with its obligations under such letter of credit, as applicable, are rated in the highest rating category (without regard to qualifiers) by the Rating Agencies and, if rated by A.M. Best & Company, also in the highest rating category (without regard to qualifiers) by A.M. Best & Company (a "Reserve Policy") in an amount, together with moneys to remain on deposit therein, equal to the Reserve Fund

Requirement. Moneys on deposit in the Reserve Fund shall be transferred, and if the amount of money then on deposit in the Reserve Fund is insufficient therefor, amounts shall be drawn on any Reserve Policy and transferred, by the Trustee to the Debt Service Fund to pay principal and/or interest evidenced by the 2007 Certificates on each date such principal and/or interest is due and payable in the event amounts on deposit therein are insufficient for such purposes. The Reserve Fund is not available for the payment of any Parity Obligations of the City nor is any other reserve fund relating to any Parity Obligations available for the payment of any insufficiency with respect to the Installment Payments.

Application of System Revenues

The City agrees and covenants in the Installment Purchase Agreement that all System Revenues it receives (except for net proceeds of any casualty insurance or condemnation award) will be deposited when and as received in the System Revenue Fund, which the City has established and which the City agrees to maintain separate and apart from other moneys of the City until all Installment Payments have been fully paid or provision has been made therefor in accordance with the Installment Purchase Agreement. Moneys in the System Revenue Fund shall be used and applied only as provided in the Installment Purchase Agreement. The Installment Purchase Agreement provides that the City is to pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the System Revenue Fund as they become due and payable and all remaining money in the System Revenue Fund shall be set aside and deposited by the City at the following times in the following order of priority:

Installment Payments. Not later than each Installment Payment Date (i.e., March 15 and September 15 of each year), the City is required to, from the moneys in the System Revenue Fund, transfer to the Trustee the Installment Payment due and payable on that Installment Payment Date. The City will also, from the moneys in the System Revenue Fund, transfer when due to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any Parity Obligation Payments in accordance with the provisions of the applicable Parity Obligation.

Reserve Fund. On or before the first Business Day of each month, the City is required to, from the remaining moneys in the System Revenue Fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee for deposit in the Reserve Fund in accordance with the Trust Agreement and to the applicable trustee for such other debt service reserve funds, if any, as may have been established in connection with Parity Obligations that sum, if any, necessary to restore: (i) the Reserve Fund to an amount equal to the Reserve Fund Requirement and otherwise replenish the Reserve Fund for any withdrawals (including draws upon the Reserve Policy) to pay the Installment Payments due under the Installment Purchase Agreement and (ii) necessary to restore such other debt service funds to an amount equal to the amount required to be maintained therein; *provided* that payments to restore the Reserve Fund after a withdrawal will be in an amount equal to 1/12 of the aggregate amount needed to restore the Reserve Fund to the Reserve Fund Requirement as of the date of the withdrawal. To the extent that draws on the Reserve Fund are from the Reserve Policy as permitted under the Trust Agreement, transfers under the Installment Purchase Agreement to

restore the Reserve Fund shall be made to reimburse the provider of the Reserve Policy to the extent the Reserve Policy is reinstated.

Surplus. Moneys on deposit in the System Revenue Fund not necessary to make any of the payments required above in a Fiscal Year, may be expended by the City at any time for any purpose permitted by law, including but not limited to payments with respect to Subordinate Obligations and deposits to the Rate Stabilization Fund.

Outstanding Parity Obligations

As of October 2, 2007, the City had the following outstanding obligations that are payable from System Net Revenues on a parity with the Installment Payments (referred to as the **"Existing Parity Obligations"** in this Official Statement):

1991 Certificates. As of October 2, 2007, the 1991 Certificates were outstanding in the principal amount of \$8,575,000. The 1991 Certificates are being immediately defeased and prepaid on February 1, 2008 with proceeds of the 2007 Certificates.

2003 Installment Payments; 2003 CSCDA Bonds. The City entered into an Installment Purchase Agreement, dated as of October 1, 2003 (the **"2003 Installment Purchase Agreement"**), by and between the City and the California Statewide Communities Development Authority (**"CSCDA"**), pursuant to which the City is obligated to make certain installment payments (the **"2003 Installment Payments"**) to CSCDA which 2003 Installment Payments secure a portion of the debt service on the CSCDA \$9,855,000 initial principal amount Water and Wastewater Revenue Bonds (Pooled Financing Program) Series 2003B (the **"2003 CSCDA Bonds"**). The City's share of the initial principal amount of the 2003 CSCDA Bonds was \$5,000,000.

As of October 2, 2007, the outstanding principal obligation under the 2003 Installment Purchase Agreement was \$4,245,000.

2004 Certificates. On May 12, 2004, the City caused execution and delivery of the \$27,360,000 initial principal amount Wastewater System Revenue Certificates of Participation, 2004 Series A (the **"2004 Certificates"**). The 2004 Certificates are secured by and payable from installment payments (the **"2004 Installment Payments"**) payable by the City under an Installment Purchase Agreement, dated as of May 1, 2004 (the **"2004 Installment Purchase Agreement"**) between the City and the Corporation.

As of October 2, 2007, the outstanding principal obligation under the 2004 Installment Purchase Agreement was \$24,445,000.

Additional Parity Debt

In addition to the Existing Parity Obligations, the City is permitted under the Installment Purchase Agreement to incur obligations secured by a pledge of System Net Revenues on a parity with the Installment Payments and the Existing Parity Obligations, subject to satisfaction of the following conditions. The Installment Purchase Agreement refers to the Installment Payments and any Parity Obligations as **"Parity Debt"**.

(a) The City must be in compliance with its obligations under the Installment Purchase Agreement.

(b) Any debt service reserve fund established for the Parity Debt must satisfy certain criteria, including (among others) the required amount of the debt service reserve fund may not exceed the lesser of the maximum annual debt service of such Parity Debt (calculated on the basis of a year ending on the final day of the Fiscal Year) or the maximum amount permitted under federal tax law. The Installment Purchase Agreement allows the debt service reserve fund for a loan from a governmental agency to be the amount required by such governmental agency.

(c) The System Net Revenues for the last completed Fiscal Year or any 12 consecutive months within the last 18 months preceding the date of entry into or incurrence of the Parity Debt, as shown by a Certificate of the City on file with the Trustee, plus an allowance for increased System Net Revenues arising from any increase in the rates, fees and charges of the System which was duly adopted by the City Council of the City prior to the date of the entry into or incurrence of the Parity Debt but which, during all or any part of such 12 month period, was not in effect, in an amount equal to the amount by which the System Net Revenues would have been increased if the increase in rates, fees and charges had been in effect during the whole of such 12 month period, as shown by a Certificate of the City on file with the Trustee, must have produced a sum equal to at least 110% of the Maximum Annual Debt Service as calculated after the entry into or incurrence of the Parity Debt; *provided*, that in the event that all or a portion of such Parity Debt is to be issued for the purpose of refunding and retiring any Parity Debt then outstanding, interest and principal payments on the Parity Debt to be so refunded and retired from the proceeds of such Parity Debt being issued shall be excluded from the foregoing computation of Maximum Annual Debt Service; *provided further*, that the City may at any time enter into or incur Parity Debt without compliance with the foregoing conditions if the Annual Debt Service for each Fiscal Year during which such Parity Debt is outstanding will not be increased by reason of the entry into or incurrence of such Parity Debt; and *provided further*, an adjustment shall be made in the amount of System Net Revenues as described in "Rate Stabilization Fund" below.

Subordinate Obligations

The Installment Purchase Agreement permits the City to incur obligations payable from System Net Revenues on a subordinate basis to the Installment Payments, the Existing Parity Obligations and any future Parity Debt.

Rate Stabilization Fund

Pursuant to the Installment Purchase Agreement, a Rate Stabilization Fund is to be held and maintained by the City until all Installment Payments have been fully paid or provision has been made therefor in accordance with the Installment Purchase Agreement. The City may, during or within 210 days after a Fiscal Year, transfer surplus System Net Revenues attributable to such Fiscal Year on the basis of Generally Accepted Accounting Principles (the "**GAAP Receipt Fiscal Year**") from the System Revenue Fund to the Rate Stabilization Fund. The City may at any time transfer moneys from the Rate Stabilization Fund to the System Revenue Fund. System Net Revenues deposited into the Rate Stabilization Fund will not be taken into account as System Net Revenues for the GAAP Receipt Fiscal Year for purposes of the calculations required by the covenants in the Installment Purchase Agreement relating to rate coverage and additional Parity Obligations. Amounts withdrawn from the Rate Stabilization

Fund and deposited into the System Revenue Fund, may be taken into account as System Revenues for purposes of the calculations required by such covenants for the Fiscal Year in which such deposit is made; provided that, for purposes of the calculation described in the last paragraph under "Rate Covenant" above, the amount of System Net Revenues before any credits for transfers from the Rate Stabilization Fund to the System Revenue Fund may not be less than 100% of Annual Debt Service for such Fiscal Year.

Although it has not historically done so, the City currently expects to utilize the Rate Stabilization Fund in order to avoid year-to-year fluctuations in System rates and charges. The City does not believe that transfers from the Rate Stabilization Fund will be necessary in order for the City to make the Installment Payments when due.

CERTIFICATE INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. Such information has not been independently confirmed or verified by the City. No representation is made in this Official Statement by the City as to the accuracy or adequacy of such information subsequent to the date hereof, or that the information contained and incorporated in this Official Statement by reference is correct. Reference is made to Appendix G for a specimen of the Insurer's Policy.

[to come]

THE SYSTEM

General

The City of Lodi is located in the County of San Joaquin (the "**County**") between Stockton and Sacramento, and adjacent to U.S. Highway 99, approximately 90 miles east of San Francisco. The City was incorporated as a General Law City on December 6, 1906.

The City operates under a City Council-Manager form of government and provides the following services: public safety (police, fire and graffiti abatement), public utilities services (electric, water and sewer), transportation services (streets, flood control and transit), leisure, cultural and social services (parks and recreation, library, and community center), and general government services (management, human resources administration, financial administration, building maintenance and equipment maintenance).

As of January 1, 2007, the City had an estimated population of 63,395 within an area of approximately 13.9 square miles.

See "APPENDIX A – THE CITY OF LODI". Since 1923, the City has been providing wastewater collection and treatment services to the community.

Governance and Management

The City is governed by a five-member City Council comprised of members elected at large. Each council member is elected for four years with staggered terms.

The current City Council members and the expiration dates of their terms are set forth below.

<u>Council Member</u>	<u>Title</u>	<u>Expiration of Term</u>
Bob Johnson	Mayor	December 2008
JoAnne Mounce	Mayor Pro Tempore	December 2008
Larry D. Hansen	Council Member	December 2010
Susan Hitchcock	Council Member	December 2010
Phil Katzakian	Council Member	December 2010

Blair King, City Manager, was appointed City Manager by the City Council effective January 24, 2005. Mr. King directs the daily operations of Lodi government, prepares and administers the municipal budget and implements the policies established by the City Council. Before coming to Lodi, Mr. King was Assistant City Manager in the City of Milpitas for four years. He previously served as City Manager in Half Moon Bay, Imperial Beach and Soledad. Mr. King earned his Bachelor's and Master's degrees from Fresno State.

Jim Krueger, Deputy City Manager, was promoted from Finance Director to Deputy City Manager in November 2005. Mr. Krueger manages the City's finances, including those of the System. He came to Lodi in May 2004 with nearly 20 years' experience as a Finance Director/Chief Financial Officer for city, county and special district governments. His jobs have included tenures with the City of Thousand Oaks and agencies in three Oregon communities. He earned his Bachelor's degree in accounting from Cal Poly Pomona and Master's degree in

Business Administration at Southern Oregon University. Krueger passed the Certified Public Accounting examination in California in 1978.

Richard Prima, Public Works Director, has overseen the City's wastewater, water, drainage, street, traffic, parks and public building infrastructure since his appointment in 1998. Mr. Prima, a registered civil engineer, earned his Bachelor of Science degree from the University of California, Berkeley. He has been on the City's Public Works staff since 1975, beginning as an assistant civil engineer. He was City Engineer from 1988 to 1998.

Charles Swimley, Water Services Manager, oversees wastewater collection and treatment and water production and distribution for the City. He received his Bachelor of Science degree in mechanical engineering from California State University, Sacramento, and has been a registered civil engineer since 1994. He was hired as a senior civil engineer by the City in 2001 and was promoted to his current position in 2007. He previously worked as an engineer for two private firms and as an associate civil engineer for the City of Stockton from 1995 to 1998 and from 1999 to 2001.

Employees

As of January 1, 2007, the City had 41 full-time equivalent employee positions budgeted for the System and the City's water system. Employees of the System and the City's water system are represented by the Maintenance and Operators Bargaining Unit, whose Memorandum of Understanding is set to expire on June 30, 2008. The City has never experienced a labor strike.

Retirement Programs

The System is responsible for a portion of the City's personnel costs. Retirement benefits to City employees, in the form of pension benefits provided through the City's participation in the California Public Employees Retirement System ("**PERS**") and limited post-retirement health care benefits, are described in Note 10 to the City's audited financial statements included in APPENDIX B hereto.

Insurance

The City's boiler and machinery operations (including those parts of the System) are insured by Hartford Steam Boiler for up to \$21,250,000 per occurrence. The City, including the System, is self-insured for general liability losses for up to \$500,000 and has pooled excess coverage through the California Joint Powers Risk Management Authority for up to \$40 million per occurrence. The City is self-insured for workers' compensation losses for up to \$250,000 and has pooled excess coverage through the Local Agency Workers' Compensation Excess Authority for up to \$300,000,000.

System Facilities

The System consists of 186.5 miles of wastewater mains, seven pump stations and one wastewater treatment plant, the White Slough Water Pollution Control Facility (the "**White Slough Facility**").

White Slough Facility. The White Slough Facility operates pursuant to a National Pollutant Discharge Elimination System ("**NPDES**") permit administered by the State of

California Regional Water Quality Control Board, Central Valley Region (the “**RWQCB**”), which was adopted by the RWQCB on September 14, 2007. The current NPDES permit will expire on September 1, 2012. See “Environmental Compliance” below.

The White Slough Facility is located in a primarily agricultural area adjacent to Interstate 5, approximately 6.5 miles southwest of the City. The White Slough Facility was originally constructed in 1966 to replace an older wastewater treatment plant located in the City. The White Slough Facility assists the City in maintaining water quality standards required for the protection of the environmentally sensitive Sacramento-San Joaquin Delta. Through the years, the White Slough Facility has been expanded and improved to meet increasingly stringent environmental protection standards. The most recent project, completed in 1992, expanded the White Slough Facility to a capacity of 8.5 million gallons per day (“**mgd**”). However, the Waste Discharge Requirements (“**WDRs**”) issued by the Regional Water Quality Control Board (the “**RWQCB**”) presently limit the average dry weather flow from the White Slough Facility to 7.0 mgd to limit potential water quality impacts in Dredger Cut, a waterway connecting to White Slough. The average current daily demand on the White Slough Facility is approximately 6.5 mgd. The Phase 3 improvements to the White Slough Facility being financed with proceeds of the 2007 Certificates are expected to restore the treatment capacity to the full 8.5 mgd. The 8.5 mgd flow capacity is expected to be sufficient to accommodate the City’s growth projections past 2020.

The White Slough Facility consists of an activated sludge treatment system and a lagoon and storage pond system, having an approximate 100 million gallons of capacity. Preliminary treatment of the domestic wastewater is accomplished by comminutors, detritors and five rectangular clarifiers. Secondary treatment facilities consist of four activated sludge aeration basins with a fine bubble aeration system, and two circular secondary clarifiers. The aeration system is driven by four centrifugal blowers. The municipal wastewater is treated to tertiary standards then disinfected using ultraviolet light pathogen deactivation (uv disinfection) prior to surface water discharge.

In addition to domestic wastewater treatment, the White Slough Facility also disposes of industrial wastewater produced primarily by Pacific Coast Producers, a local cannery. See “Service Area and Customers” below. In past years, the annual industrial flow to the White Slough Facility has exceeded 400 million gallons per year (“**mgy**”); however, since 2002, industrial flows have decreased to between 100 to 200 mgy due to changes in processing. Most of this flow is received during the period from June through September.

During summer months (*i.e.*, generally during the period from May 1 through September 1), treated domestic wastewater, industrial wastewater, and digested sludge are blended together and used for irrigation of an adjacent 790 acres of City-owned agricultural land. During the remainder of the year, treated domestic wastewater is discharged to Dredger Cut in the Sacramento-San Joaquin Delta, and industrial wastewater is stored in four ponds located directly north of the main treatment plant site. These ponds have a total surface area of about 40 acres. Tertiary treated domestic wastewater is also used by the adjacent Northern California Power Agency power generation facilities for various purposes, including, but not limited to, cooling, and to supply nearby ponds that are used by the Mosquito Abatement District to raise mosquito fish. Sludge is thickened and then digested in three anaerobic digestors and then stored in a concrete lined facility and periodically removed for use on City-owned agricultural land. Methane gas from the anaerobic digestion process is used for building and digester heating. Excess methane is flared off at the plant site.

Collection System. The existing collection system, not including the outfall to the treatment plant, consists of approximately 186.5 miles of 4" to 48" sewers constructed of clay, concrete, and PVC plastic materials. Included in this system are six lift stations which serve outlying portions of the City and one industrial waste pumping station. The collection system currently serves over 23,000 customers (most of which is residential), 1,400 acres of commercial/industrial development, and 250 acres of schools. Over 50% of the sewers are 6" in diameter. The following is a tabulation of the sewers.

**Table 1
City of Lodi
Wastewater System
Tabulation of Existing Sewers
As of October 1, 2007**

Sewer Size (inches)	Total Feet	Sewer Size (inches)	Total Feet
48	27,529	15	16,130
42	8,678	14	7,340
30	10,3398	12	44,203
24	16,130	10	78,272
21	14,737	8	200,069
18	30,839	6	525,072
16	7,505	4	4,758

Source: City of Lodi

The domestic wastewater collection system conveys all domestic and commercial flows and limited industrial flows. The industrial wastewater system conveys fruit processing water and minor amounts of cooling and process water contributed by certain industries. The wastewater collection system serves all of the developed property within the City limits. The maintenance program for these facilities is accomplished by City crews. This program includes the systematic hydrocleaning, rodding, smoke testing and video inspection of mains throughout the City.

Environmental Compliance

The present discharge requirements for the City's White Slough Facility are established by the RWQCB which administers and enforces all federal and State of California discharge requirements. The RWQCB administers regulations promulgated by the United States Environmental Protection Agency through the NPDES permits. The City's NPDES discharge permit No. CA0079243 is subject to renewal every five years. The City's current NPDES permit was adopted on September 14, 2007 by the RWQCB. The permit includes an interim effluent limit of 7.0 mgd; 7.2 mgd upon acceptance of flows from the San Joaquin County Service Area 31 (Flag City), which is expected prior to April 2008; and a final effluent limit of 8.5 mgd upon completion of the White Slough Facility Phase 3 improvements scheduled to be completed in March 2009. An environmental organization has filed a petition with the State Water Resources Control Board challenging issuance by the RWQCB of the NPDES permit for the White Slough Facility. The City does not expect the petition to adversely impact its ability to operate the System or its ability to make the Installment Payments when due.

The current NPDES permit establishes new discharge limits for Aluminum, Ammonia, Chlorodibromomethane, Dichlorobromomethane, Manganese, Nitrate and Nitrite while

reducing the discharge limits for Mercury. In September 2007, the RWQCB issued a Time Schedule Order (No. R5-2007-0114) to the City, which recognizes that the City is not able to consistently comply with the waste discharge limitations in the NPDES permit for manganese, nitrate and nitrite, and establishes a time schedule (including a final compliance date of May 18, 2010) for completion of action necessary to bring the waste discharge into compliance. The permit also includes a salinity limit of 780 μ S/cm. The City can currently comply with this limit; however some additional studies are required by the permit to evaluate reducing salinity discharges.

The permit also contains more stringent discharge requirements for the treated wastewater used to irrigate the surrounding land application area. Constituents included are Chloride, Iron, Lead, Nitrite, Nitrate, and Mercury.

Finally, additional study requirements relating to organic loading, background groundwater assessments and industrial influent characterization have been required along with schedules for completion.

The Phase 3 improvements are intended to improve de-nitrification and bring the facility's permitted treatment capacity to 8.5 MGD. RWQCB Staff considered the proposed Phase 3 improvements when developing the latest NPDES permit conditions. A Negative Declaration pursuant to CEQA was adopted for the recent Phase 3 improvements on April 10, 2007.

The City's pretreatment program complies with the pretreatment requirements contained in the Federal Water Pollution Control Act. In general, performance of the White Slough Facility has met discharge requirements, although the City has experienced a handful of non-material instances of noncompliance.

See "RISK FACTORS – Potential Liability Related to the Main Trunk Line" below for a discussion of potential liability associated with the current condition of the main trunk line being rehabilitated with proceeds of the 2007 Certificates, and "LITIGATION" below for a discussion of certain pending environmental litigation and liability involving the City.

Service Area and Customers

The City provides wastewater collection and treatment to substantially all of the population of the City, representing an area of approximately 13.9 square miles in the City. The City ordinance does not allow wastewater service outside the City limits, except for wineries and other public wastewater service districts pursuant to contracts with the City.

The System will be providing wastewater treatment service by contract to San Joaquin County Service Area 31 (Flag City) beginning in Spring 2008. Pursuant to the contract, the City will receive a \$250,000 one-time administrative fee, an estimated \$6.5 million capacity fee and ongoing service charges. The City expects service charges paid by County Service Area 31 to account for approximately \$163,000, or 1%, of fiscal year 2007-08 System Revenues,

The System also provides service to the Van Ruiten Family Winery, which accounts for a de minimis amount of System Revenues.

The table below shows the number of connections of the System by user type and service charge revenues by class of user.

Table 2
City of Lodi
Wastewater System
Number of Connections by User Type
as of June 30
and Percentage of Fiscal Year 2006-07 Service Charge Revenue by User Type

User Type	Connections					% of FY 06-07 Service Charge Revenue
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	
Residential	21,094	21,857	22,194	22,511	22,571	72.5%
Commercial/Industrial	<u>1,595</u>	<u>1,595</u>	<u>1,584</u>	<u>1,603</u>	<u>1,562</u>	<u>27.5</u>
Total All Users	22,689	23,452	23,778	24,114	24,133	100.0%

Source: City of Lodi.

The table below shows the 10 largest users of the System based on service charge revenues for the Fiscal Year 2006-07 (unaudited).

Table 3
City of Lodi
Wastewater System
Largest Users by Service Charge Revenues
Fiscal Year 2006-07 (unaudited)⁽¹⁾

<u>User</u>	<u>Type of Business</u>	<u>Service Charge Revenue</u>	<u>Percentage of Total Annual Service Charge Revenue</u>
Cottage Bakery	Specialty bakery, frozen dough	\$265,284	3.1%
Lodi Unified School District	K-12, adult education	246,926	2.9
Pacific Coast Producers	Private label fruit canning	227,264	2.7
General Mills	Cereals, bread mixes, snack foods	186,793	2.2
City of Lodi	Government	42,459	0.5
Miller Packing Co.	Hot dog producer	34,281	0.4
Lodi Memorial Hospital	Health care	25,195	0.3
Tokay Villa Apartments	Residential	23,119	0.3
Sand Creek Apartments	Residential	21,284	0.2
Kaitz Property Services	Residential	<u>21,195</u>	<u>0.2</u>
Total Top 10		\$1,093,800	12.8%
Total System		<u>\$8,523,531</u>	

⁽¹⁾ Source: Lodi Public Works Department.

Set forth below are descriptions of the major users identified in the previous table except the City (see "APPENDIX A – The City of Lodi"):

Cottage Bakery – A division of RalCorp (formerly Ralston Purina Company), Cottage Bakery provides frozen bread and bagel dough to the retail and food service industries, as well as baked cakes, pastries and pies. Cottage Bakery is one of Lodi's largest employers, with over 700 full-time staff.

Lodi Unified School District – The school district has 16 school sites (kindergarten through 12th grade) in Lodi, in addition to the district administrative center, a 40,000 square foot warehouse and a maintenance yard. From a square mile perspective, Lodi Unified School District is the second largest in California (the school district has numerous school sites outside of Lodi's city limits as well).

Pacific Coast Producers – Pacific Coast Producers is a fruit canning/labeling cooperative that supplies the retail and food service industries. The company's corporate offices are located in Lodi. The company has in excess of 1 million square feet of space under roof for its fruit preparation, refrigeration, canning, labeling, and storage in Lodi.

General Mills – the Lodi plant produces and packages numerous cereal products, including Golden Grahams, Cheerios and Frosted Cheerios, as well as breakfast and lunch snack bars. These products are stored and then shipped to 12 western states. The General Mills plant has been a part of the Lodi community for over 50 years, and employs 500+ full-time employees.

Miller Packing Company - In 1910, Miller Packing Company began manufacturing smoked meat products in Oakland, California. The company remained in the same facility until 2002 when a new state-of-the-art plant was constructed in the City. Today, Miller Packing continues to produce high quality products and has expanded its market area to include the Western continental United States, Hawaii, Guam and the Far East. Miller products are sold by food service distributors to fine hotels, restaurants, and sporting facilities. Miller is the official hot dog provider of the Oakland A's at the Oakland Coliseum.

Lodi Memorial Hospital - Since opening its doors in 1952, Lodi Memorial Hospital has evolved to meet growing community needs. In addition to nine clinics and various community services provided across a broad geographic area, Lodi Memorial Hospital includes a Main Campus and West Campus. Current licensed beds at the Main Campus total 99 and West Campus total 71. Services provided include general acute inpatient, acute rehabilitation, subacute care, emergency care, urgent care, inpatient and out patient surgery, a medical ambulatory care unit, cardiac rehabilitation and many other services. The hospital will break ground for over \$150 million in major upgrades and construction of a new, four-story patient wing in 2008.

Tokay Villa Apartments - This apartment complex, built in the late 1970s, is comprised of 90 residential units.

Sand Creek Apartments - This apartment complex, built in the early 1980s, is comprised of 130 residential units.

Kaitz Property Services - Kaitz Property Services owns Orange Grove Apartments (92 units), Vintage Apartments (102 units) and Turner Road Apartments (12 units) for a total of 206 units.

Wastewater Rates and Charges

The City has the power to establish rates and charges as needed to operate the System. The rates and charges are established by the City Council and are not subject to review or approval by any other agency. The City principally relies on service charges and capacity/connection fees.

Service Charges. The City Council established charges for domestic system residential, commercial and industrial wastewater service by Resolution No. 2004-77 adopted by the City on April 27, 2004. Resolution No. 2004-77 did the following:

- Imposed a 25% system average rate increase over prior rates, effective May 1, 2004.
- Imposed a second system average rate increase of 25%, effective July 1, 2005.
- Allowed the City Council to adjust the service charges periodically by resolution, following a public hearing, in an amount not to exceed the percentage change in the Consumer Price Index (CPI) for the San Francisco-Oakland-San Jose Area since the previous adjustment.

Most recently, pursuant to Resolution No. 2007-113 adopted on June 6, 2007, the City Council implemented the CPI increase (3.44%) effective July 1, 2007. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS – California Constitution Articles XIIC and XIID" for a discussion of the City's compliance with requirements established by Proposition 218.

Set forth below is a table showing the rates effective May 1, 2004, July 1, 2005, July 1, 2006 and July 1, 2007.

Table 4
City of Lodi
Wastewater System
Schedule of Wastewater Service Charges

	Service Charge (effective May 1, 2004)	Service Charge (effective July 1, 2005)	Service Charge (effective July 1, 2006)	Service Charge (effective July 1, 2007)
<i>For Residential Users (per month):</i>				
1 Bedroom	\$12.16	\$15.20	\$15.49	\$16.03
2 Bedrooms.....	16.21	20.26	20.65	21.37
3 Bedrooms.....	20.27	25.34	25.81	26.71
4 Bedrooms.....	24.33	30.41	30.98	32.06
5 Bedrooms.....	28.38	35.48	36.14	37.40
6 Bedrooms.....	32.43	40.54	41.30	42.74
7 Bedrooms.....	36.48	45.60	46.46	48.08
<i>For Commercial/Industrial Users:</i>				
Moderate Strength (annual per Sewage Service Unit (SSU)).....	\$194.60	\$ 243.25	\$247.80	\$256.33
High Strength:				
Flow (annual per MG).....	936.36	1,170.45	2,092.01	2,164.00
BOD (annual per 1,000 lbs.).....	458.23	572.79	345.24	357.12
SS (annual per 1,000 lbs.).....	374.58	468.23	215.86	223.29
Grease Interceptor/Septic Holding Tank Waste within City Limits (per 1,000 gal.)	143.44	179.30	182.80	189.09
Septic Holding Tank Waste outside City Limits (per 1,000 gal.).....	304.51	380.64	388.06	401.41
Disposal to Storm Drain System (per MG) ..	150.66	180.33	192.00	198.61
Disposal to Industrial System				
Flow (per MG, annual basis)				1,309.48
BOD (per 1,000 lbs., annual basis)				22.82
Winery Waste (per 1,000 gallons)			185.10	191.47

There are separate charges applicable to the industrial system, which primarily apply to Pacific Coast Producers, the largest individually-monitored system user. No new users have been connected to the industrial system, except the Van Ruiten Family Winery, in several years and no new users are anticipated.

Capacity/Connection Fees. Capacity/connection fees are one-time only connection charges based on estimated annual usage (the City reviews large industrial users after connection to determine actual usage and, in some cases, adjusts the connection fee to reflect actual usage). Capacity/connection fees are collected at the time a building permit is granted.

The capacity/connection fees were established for residential, commercial and industrial wastewater service by Resolution No. 2006-06, adopted by the City on January 4, 2006 and effective March 6, 2006. The capacity/connection fees are adjusted annually on July 1 based on the past annual change in the Engineering News Record 20 Cities Construction Cost Index.

The current capacity/connection fees are identified in the following table:

Table 5
Capacity/Connection Fees
(as of July 1, 2007)

Description	Fees ⁽¹⁾
Moderate Strength Users	
Per Sewage Service Unit (SSU)	\$5,356.00
High Strength Users	
Flow (per million gallons (MG), annual basis)	\$40,825.00
BOD (per 1,000 lbs., annual basis)	10,573.00
SS (per 1,000 lbs., annual basis)	5,655.00

⁽¹⁾ Includes 1% public art fee. Subject to annual adjustment on July 1 based on the past annual change in the Engineering News Record 20 Cities Construction Cost Index.
Source: City of Lodi.

New residential development in the City is subject to a growth control ordinance that limits new residential development based on an increase in population of 2% per year.

Collections. The City bills for water, wastewater, solid waste and electricity on the same bill. If a bill is unpaid, the City will terminate electric service to a customer within 90 days of nonpayment after 48 hours notice. The annual delinquency rate has been less than 1% for the preceding 10 fiscal years.

Comparison of Monthly Wastewater Service Charges of Selected Agencies. A comparison of wastewater service charges of selected agencies located in San Joaquin County for an average single-family home is set forth below.

Table 6
Comparison of Monthly Wastewater Service Charges
(as of October 1, 2007)⁽¹⁾

Agency	Service Charge ⁽²⁾
City of Galt	\$49.89
City of Manteca	33.06
City of Tracy	31.00
City of Lodi	26.71
City of Stockton	21.10
 <i>Average</i>	 \$32.35

⁽¹⁾ Rates shown are as of October 1, 2007.

⁽²⁾ For all agencies other than the City, based upon flat monthly rate charged to all single family residential customers. Rate for City reflects rate for three-bedroom single family residence.

Source: City of Lodi.

Planned Capital Improvements

In May 2000, the RWQCB adopted a plan for the implementation of new discharge requirements to be imposed under NPDES permits. In January 2001, the City adopted a three-phase Wastewater System Master Plan, which included the evaluation of the improvements required to meet the new permit requirements, as well as other future improvements.

- Phase 1 (\$1.4 million) involved the installation of aeration blower equipment, electrical improvements and seismic and fire improvements. The Phase 1 improvements were completed in mid-2004 and financed with proceeds of the 2003 CSCDA Bonds.
- Phase 2 (\$8.2 million) involved addition of tertiary filters/UV disinfection and acquisition of land to increase the size of the White Slough Facility, and satisfied the requirements of the City's then-current NPDES permit. The Phase 2 improvements were completed in 2004 and primarily financed with proceeds of the 2004 Certificates.
- Phase 3 (\$20.6 million) is currently underway, and is being financed with proceeds of the 2007 Certificates and remaining proceeds of the 2004 Certificates (see "THE FINANCING PLAN – Financing of the 2007 Project").

In addition to the third and final phase of the 2001 Master Plan, the City intends to finance with proceeds of the 2007 Certificates the rehabilitation of the main trunk line connecting the City and the White Slough Facility. Beyond that, the City expects to make \$11 million of capital improvements to the System in fiscal years 2007-08 through 2012-13. The City plans to finance these capital improvements through a combination of operating revenues, capacity fees and System reserves.

See also "LITIGATION" below for additional information regarding certain environmental cleanup costs the City may incur.

Financial Statements

Excerpts of the audited General Purpose Financial Statements of the City as of June 30, 2006 are included in Appendix B to this Official Statement. A complete copy of the City's Comprehensive Annual Financial Report may be obtained from the City. The Installment Payments are special obligations of the City payable solely from the System Net Revenues. The General Purpose Financial Statements, including the excerpts contained in Appendix B, have been audited by Macias, Gini & Company LLP, Sacramento, California, independent accountants (the "**Independent Accountants**") as stated in their report appearing in Appendix B.

No review or investigation with respect to subsequent events has been undertaken in connection with such General Purpose Financial Statements by the Independent Accountants and the Independent Accountants have not been asked to consent to the City including the General Purpose Financial Statements in this Official Statement.

Historical Operating Results

The following table sets forth historical revenues, expenses and debt service coverage of the System, based on the City's audited financial statements for fiscal years 2002-03 through 2005-06 (except as set forth in footnote 5 below) and unaudited results for fiscal year 2006-07. The coverage ratios have been computed in accordance with the requirements of the Installment Purchase Agreement, including the definitions of System Net Revenues and Operation and Maintenance Costs.

Table 7
City of Lodi
Wastewater System
Historical Operating Results and Debt Service Coverage
Fiscal Years 2002-03 through 2006-07

	2002-03 (audited)	2003-04 (audited)	2004-05 (audited)	2005-06 (audited)	2006-07 (estimated)
Operating Revenues (1)					
Charges for Services	\$5,366,092	\$5,510,561	\$6,645,391	\$8,206,016	\$8,523,531
Capacity/Connection Fees	1,394,287	1,049,452	1,440,337	720,588	1,454,915
Non-Operating Revenues					
Interest Income	64,042	75,151	563,759	569,234	896,668
Rent (2)	237,749	37,301	182,345	103,345	176,435
Other (3)	<u>365,654</u>	<u>563,811</u>	<u>400,377</u>	<u>265,788</u>	<u>555,148</u>
Total System Revenues	\$7,427,824	\$7,236,276	\$9,232,209	\$9,864,971	\$11,606,696
Operating Expenses (1), (4), (5)					
Personnel services	2,091,217	1,904,055	2,336,247	2,163,754	2,233,733
Supplies, materials and services	1,825,041	1,956,715	1,809,913	1,912,989	2,019,582
Utilities	463,856	524,899	635,100	723,387	683,670
Other	-	-	-	-	<u>345,969</u>
Total Operating Expenses	<u>\$4,380,114</u>	<u>\$4,385,669</u>	<u>\$4,781,260</u>	<u>\$4,800,130</u>	<u>\$5,282,954</u>
System Net Revenues	\$3,047,710	\$2,850,607	\$4,450,949	\$5,064,841	\$6,323,742
Parity Debt Service					
1991 Installment Payments	803,960	808,488	807,055	804,798	806,530
2003 Installment Payments	-	88,888	383,148	379,448	380,698
2004 Installment Payments	-	-	<u>1,248,212</u>	<u>2,157,300</u>	<u>2,156,913</u>
Total Parity Debt Service	\$803,960	\$897,375	\$2,438,414	\$3,341,545	\$3,344,140
Debt Service Coverage (5)	3.79	3.18	<u>1.83</u>	<u>1.52</u>	1.89
Non-Operating Expenses					
Transfers (In)/Out	<u>580,535</u>	<u>670,450</u>	<u>2,913,009</u>	<u>1,143,269</u>	<u>1,050,077</u>
Total Non-Operating Expenses	580,535	670,450	2,913,009	1,143,269	1,050,077
Net Cashflow Before Capital Expenditures	1,663,215	1,282,782	(900,474)	580,027	1,929,525

- (1) Source: City of Lodi Consolidated Annual Financial Reports for fiscal years 2002-03 through 2005-06; City unaudited estimated actual for fiscal year 2006-07.
- (2) Includes annual lease revenue for White Slough Facility agricultural land.
- (3) Includes Operating Grants, Sewer Tap Fees and Septic Dumping Charges.
- (4) Excludes depreciation. Operating costs increased in fiscal year 2005-06 and thereafter due to implementation of tertiary treatment.
- (5) Transfers to the City's water enterprise to cover PCE/TCE-related litigation expenses of \$2,247,318 in fiscal year 2004-05 and \$85,736 in fiscal year 2005-06 were included as operating expenses in the City's audited financial statements for those years, but are shown here as Transfers Out, which is consistent with the definition of Operation and Maintenance Costs in the Indenture. The aggregate Transfer Out to the water enterprise was repaid to the System in fiscal year 2006-07. See "LITIGATION" below..

Management's Discussion of Operating Results. Financially, the City operates the wastewater utility as a separate enterprise activity within the City government. This structure is essentially the same as for its water and electric utility enterprises. Functionally, the wastewater utility is operated jointly with the water utility by the Water/Wastewater Division within the Department of Public Works. This arrangement is designed by the City to provide for improved efficiency in cross training and utilization of staff and in the purchase and use of equipment and facilities.

Rate increases implemented in May 2004 and July 2005, were implemented to pay for the second and third phases of improvements at the White Slough Facility. The increases in 2004 and 2005 and the additional increases which match the Consumer Price Index in 2006 and 2007 were adopted in compliance with the requirements of Proposition 218 (see "CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS – California Constitution Articles XIII C and XIII D"). These increases have generated approximately \$2.7 million additional revenues per year as of fiscal year 2006-07. This additional revenue is being used to pay for a significant share of the 2003 Installment Payments and the 2004 Installment Payments and is expected to pay for a significant share of the Installment Payments. The Wastewater Fund Balance (including the Rate Stabilization Fund) has increased to a balance of approximately \$5 million as of June 30, 2007 and exceeds the reserve policy goal of 15% of operating expenses.

Projected Operating Results and Debt Service Coverage

The City's estimated projected operating results for the System for the Fiscal Years ending June 30, 2008 through 2012 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the City's estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the chart set forth below are material in the development of the City's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

The following table also sets forth debt service coverage ratios with respect to existing and anticipated Parity Debt. Such coverage ratios have been computed in accordance with the requirements of the Installment Purchase Agreement. Such coverage calculation differs in certain respects from the requirements of the instruments authorizing the outstanding 2003 CSCDA Bonds.

Table 8
City of Lodi
Wastewater System
Projected Operating Results and Debt Service Coverage
Fiscal Years 2007-08 through 2011-12

	Budget FY 2007-08	Projected FY 2008-09	Projected FY 2009-10	Projected FY 2010-11	Projected FY 2011-12	Projected FY 2012-13
Operating Revenues (1)						
Charges for Services (2)	\$9,001,880	\$9,363,792	\$9,740,253	\$10,131,851	\$10,539,192	\$10,962,909
Capacity/Connection Fees (3)	997,825	1,044,968	1,094,339	1,146,042	1,200,188	1,256,892
Capacity Fee for Flag City service area	6,500,000					
Non-Operating Revenues						
Interest Income (4)	400,843	510,710	519,841	465,605	367,483	285,574
Rent (5)	250,000	258,500	267,289	276,377	285,774	295,490
Other (6)	195,000	201,204	207,617	214,245	221,096	228,178
Transfer from/(to) Rate Stabilization Fund	<u>(400,000)</u>	<u>175,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total System Revenues	\$16,945,548	\$11,554,174	\$11,829,340	\$12,234,120	\$12,613,733	\$13,029,043
Operating Expenses (1), (7)						
Personnel services	3,055,902	3,147,579	3,242,006	3,339,267	3,439,445	3,542,628
Supplies, materials and services	868,663	902,683	938,039	974,786	1,012,977	1,052,669
Utilities	797,465	837,338	879,205	923,165	969,324	1,017,790
Other	<u>753,574</u>	<u>821,636</u>	<u>750,353</u>	<u>774,645</u>	<u>759,632</u>	<u>780,233</u>
Total Operating Expenses	\$5,475,604	\$5,709,237	\$5,809,603	\$6,011,863	\$6,181,377	\$6,393,320
System Net Revenues	\$11,469,944	\$5,844,938	\$6,019,736	\$6,222,257	\$6,432,356	\$6,635,723
Parity Debt Service (8)						
1991 Installment Payments	519,800	0	0	0	0	0
2003 Installment Payments	381,848	382,648	382,733	381,393	379,170	381,123
2004 Installment Payments	2,151,450	2,145,713	2,148,800	2,147,600	2,139,350	2,138,475
2007 Certificates*	<u>330,975</u>	<u>1,665,525</u>	<u>1,661,025</u>	<u>1,666,300</u>	<u>1,676,013</u>	<u>1,675,275</u>
Total Parity Debt Service*	\$3,384,072	\$4,193,885	\$4,192,558	\$4,195,293	\$4,194,533	\$4,194,873
Debt Service Coverage*	3.39	1.39	1.44	1.48	1.53	1.58
Non-Operating Expenses						
Transfers (In)/Out (9)	<u>1,456,510</u>	<u>1,506,031</u>	<u>1,557,236</u>	<u>1,610,182</u>	<u>1,664,929</u>	<u>1,721,536</u>
Total Non-Operating Expenses	1,456,510	1,506,031	1,557,236	1,610,182	1,664,929	1,721,536
Net Cashflow Before Capital Expenditures	\$6,629,361	\$145,021	\$269,943	\$416,782	\$572,894	\$719,314
Less Net Capital Expenditures (10)	0	0	(1,575,723)	(2,724,390)	(2,507,268)	(2,261,650)
Net Deposit/Withdrawal from Reserves	6,629,361	145,021	(1,305,781)	(2,307,608)	(1,934,374)	(1,542,336)
Wastewater Enterprise Fund (11)						
Beginning Fund Balance	4,902,595	11,531,956	11,676,978	10,371,197	8,063,588	6,129,214
Ending Fund Balance	11,531,956	11,676,978	10,371,197	8,063,588	6,129,214	4,586,879
Rate Stabilization Fund Beginning Balance	0	410,000	249,513	260,741	272,474	284,735
Rate Stabilization Fund Ending Balance	<u>410,000</u>	<u>249,513</u>	<u>260,741</u>	<u>272,474</u>	<u>284,735</u>	<u>297,548</u>
Total Reserves at Year End	11,941,956	11,926,490	10,631,938	8,336,062	6,413,950	4,884,427

(1) Source: City Budget estimates for fiscal year 2007-08. HF&H Consultants provided revenue and expense projections for revised fiscal year 2008-09 through fiscal year 2011-12, with City input.

(2) Reflects addition of approximately \$163,280 from Flag City wholesale treatment in fiscal year 2007-08. Charges for services projected for fiscal year 2008-09 and thereafter to increase at annual CPI (estimated at 3.4%) plus annual growth in connections of 0.6%.

(3) Estimate for fiscal year 2007-08 based on analysis of development activity in pipeline; reduced below prior five year average of \$1.13 million annually. Fiscal year 2007-08 also includes \$6.5 million one-time payment for Flag City annexation into service area. Inflated at construction cost index (estimated at 4.1%) and 0.6% annual growth in connections.

(4) Annual interest earnings projected at 5% in fiscal year 2007-08 and 4.5% thru fiscal year 2011-12 and 4% thereafter times the average annual fund balance.

(5) Includes annual lease revenue for White Slough treatment plant agricultural land; projected to increase annually at CPI rate (estimated at 3.4%)

(6) Includes Operating Grants, Sewer Tap Fees and Septic Dumping Charges. Sewer Tap Fees projected at 0.6% annual growth rate; Septic Dumping Charges projected at 3.4% annual inflation estimate.

(7) Excludes depreciation. Projected to increase annually at varying rates: personnel costs at 3%, utility costs at 5%, supplies and other at 3.4%, with variations for regulatory studies, etc. Operating costs projected to increase in fiscal year 2007-08 and thereafter due to new NPDES permit requirements.

(8) Assumes refunding of the 1991 Certificates and issuance of 2007 Certificates in November 2007

(9) In fiscal year 2007-08, the City will eliminate the payment in Lieu of Taxes (PILOT) transfer and charge only an overhead service charge from the wastewater enterprise to the City General Fund on a basis subordinate to debt.

(10) Represents planned capital expenditures net of projects to be funded from approximately \$8.4 million of 2004 Certificate proceeds and \$21 million from proposed 2007 Certificate proceeds.

(11) Represents a combined wastewater enterprise reserve available for operations and capital projects.

*Preliminary; subject to change.

Transfers to the General Fund of the City

Pursuant to budget policy adopted by the City Council, transfers by the System to the City's General Fund have included a payment in-lieu of taxes for fiscal years up through 2006-07. This transfer had been 12% of revenues through fiscal year 2003-04 and was reduced to a fixed dollar amount in fiscal year 2004-05 (approximately 9% of system revenues). A cost of services study was completed in September 2007 to review the allocation of administrative overhead to the System. As a result, the City has changed its method of calculating general administrative overhead allocable to the System. Beginning in fiscal year 2007-08, the payment in-lieu of taxes will be eliminated and the administrative transfers to the General Fund will be paid on a subordinate basis to the Installment Payments.

CONTINUING DISCLOSURE

The City will covenant pursuant to a Continuing Disclosure Certificate to provide certain financial information and operating data relating to the City and the System by not later than six months following the end of the City's Fiscal Year, which Fiscal Year presently ends June 30 (the "**Annual Report**"), commencing with the Annual Report for fiscal year 2006-07, and to provide notices of the occurrence of certain enumerated events, if material, under federal securities law.

The specific nature of the information to be contained in the Annual Report and the notices of material events are set forth in "APPENDIX E – PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE". These covenants have been made to assist the Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission (the "**Rule**").

As of the date hereof, the City has never failed to comply in any material respect with any previous undertakings with regard to the provision of annual reports or material events notices as required by the Rule.

THE CORPORATION

The Corporation was incorporated under the Nonprofit Public Benefit Corporation Law of the State of California. The Corporation was organized as a nonprofit corporation for the purpose, among others, of assisting the City in the acquisition, construction and financing of public improvements which are of public benefit to the City. Members of the Lodi City Council serve on the Board of Directors of the Corporation.

CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS

California Constitution Articles XIII A and XIII B

Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed 1% of the "full cash value" of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. "Full cash value" is defined as "the County Assessor's

valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraisal value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The "full cash value" is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction or other factors.

The foregoing limitation does not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved by the voters as required by law.

Under Article XIII B of the California Constitution, state and local government entities have an annual "appropriations limit" which limits their ability to spend certain moneys called "appropriations subject to limitation," which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. The City is of the opinion that the wastewater service and user charges imposed by the City do not exceed the costs the City reasonably bears in providing the wastewater service. In general terms, the "appropriations limit" is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

California Constitution Articles XIIC and XIID

General. On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIC and XIID to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property-related fee or charge").

Specifically, under Article XIID, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a

service unless that service is actually used by, or is immediately available to, the owner of the property in question.

In addition, Article XIIC states that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives.”

Judicial Interpretation of Proposition 218. After Proposition 218 was enacted in 1996, appellate court cases (such as *Apartment Association v. City of Los Angeles* (2001) 24 Cal. 4th 830) and an Attorney General opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218 under certain circumstances.

In *Richmond v. Shasta Community Services District* (9 Cal. Rptr. 3d 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (S127535, July 24, 2006), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are “fees and charges” within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also “fees” within the meaning of Article XIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

Proposition 218 and the City's Wastewater System Rates. The City followed the procedural requirements, including the public hearing and majority protest provisions, of Proposition 218 in connection with its most recent System rate increases (which included approval for annual CPI increases). See "THE SYSTEM - Wastewater Rates and Charges". The City believes that its current wastewater charges which are collected to pay the costs of System operation and maintenance and debt service comply in all respects with the requirements of Article XIID and the City expects that any future wastewater charges will comply with Article XIID's procedural and substantive requirements to the extent applicable thereto.

The City will continue to comply with the provisions of Proposition 218 in connection with future rate increases.

Conclusion. It is not possible to predict how courts will further interpret Article XIIC and Article XIID in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City's rates and charges, although it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness. In this regard, it should be noted that, after the City Council adopted increased water rates on September 21, 2005 to pay for the cleanup of perchloroethylene (PCE) and trichloroethylene (TCE) in the City's groundwater (see "LITIGATION" below), an initiative (Measure H) was placed on the November 7, 2006 ballot to repeal the increased rates. The resolution failed, with 63.9% of the voters rejecting the proposed rate reduction and 36.1% of voters supporting it.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIC and Article XIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for utility service, or to call into question previously adopted utility rate increases.

Future Initiatives

Articles XIII A, XIII B, XIIC and XIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the City's revenues or ability to increase revenues.

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the 2007 Certificates. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the 2007 Certificates. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Limited Obligations

The 2007 Certificates are payable only from Installment Payments received from the City, and the Installment Payments are secured by and payable solely from System Net Revenues; the Installment Payments are not secured by a legal or equitable pledge or charge or lien upon any property of the City or the Corporation or any of their income or receipts, except the System Net Revenues.

The obligation of the City to make the Installment Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Parity Obligations

In addition to the Installment Payments, the City is obligated to make the 2003 Installment Payments and the 2004 Installment Payments from System Net Revenues. In addition, the City is permitted under the Installment Purchase Agreement, subject to satisfaction of certain conditions, to incur additional Parity Debt. In the event System Net Revenues were insufficient to pay all of the City's obligations with respect to the Parity Debt, when due, the City would be obligated to make payments on the Parity Debt on a *pari passu* basis.

Increased Direct Costs

There can be no assurance that the Operation and Maintenance Costs of the City with respect to the System will be consistent with the levels contemplated in this Official Statement. Changes in technology, litigation (see "LITIGATION"), costs related to environmental matters (see "THE SYSTEM – Environmental Compliance"), increases in the cost of operation or other expenses could require increases in rates or charges in order to comply with the City's rate covenant, and could increase the possibility of nonpayment of the Installment Payments. See "THE SYSTEM".

Natural Calamities

From time to time, the service area of the System is subject to natural calamities, including earthquake and flood. A seismic event or a flood could cause property damage, which could adversely impact the availability of System Net Revenues, whether as the result of reduced System Revenues or increased Operation and Maintenance Costs, or both.

The City of Lodi General Plan dated June 12, 1991, includes the following information about flood and earthquake risk in the City.

Earthquakes. The greatest geologic hazard in Lodi is the structural danger posed by groundshaking from earthquakes originating outside of the area. The level of impact resulting from any seismic activity will depend on factors such as: distance from epicenter, earthquake magnitude, and characteristics of soils and subsurface geology. Damaging effects could possibly be worsened by liquefaction of underlying materials, causing larger buildings to settle or topple. Direct damage from surface rupture is considered unlikely because no faults are known to underlie the area.

The maximum expected earthquake intensity to be reasonably expected in the Lodi area would correspond to a Modified Mercalli Intensity VIII, or possibly higher. During an intensity VIII event, some damage would occur to well-made structures and chimneys; some towers would fall; and poorly constructed or weak structures would be heavily damaged. An earthquake with an intensity of VIII would be most probably in areas where the water table is most shallow in proximity to the Mokelumne River. Where the water table is deeper than 30 feet, which it is throughout most of the City, a maximum intensity of only VII would be more reasonably expected. In such an earthquake, damage in well-built structures would be slight.

Flood. Based on revised flood risk evaluations prepared by the Federal Emergency Management Agency (FEMA) for the City of Lodi and San Joaquin County in 1987, flood hazards are a constraint to development only in the area immediately adjacent to the Mokelumne River in the 100-year floodplain. The levee system along the Mokelumne River is of sufficient height to protect nearly all of the City from 100-year floodflow, but the majority of the area would be inundated during the 500-year flood event. Flood depths during the 500-year event have not been estimated. Significant portions of the area are high enough to be free of the 500-year hazard. **[discuss updates]**

Limited Recourse on Default

Failure by the City to make the Installment Payments, when due, constitutes an event of default under the Installment Purchase Agreement and the Corporation is permitted to pursue remedies at law or in equity to enforce the City's obligation to make the Installment Payments. Although the Corporation has the right to accelerate the total unpaid principal component of the Installment Payments, there is no assurance that the City will have sufficient System Net Revenues to pay the principal component of the Installment Payments upon acceleration. See also "CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS – California Constitution Articles XIII C and XIII D" above.

Effect of Bankruptcy

In addition to the limitations on remedies contained in the Installment Purchase Agreement and the Trust Agreement, the rights and remedies provided in the Installment Purchase Agreement and the Trust Agreement may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. In the event of the bankruptcy of the City, the obligations of the City under the Installment Purchase Agreement may be set aside.

Loss of Tax Exemption

The City has covenanted in the Installment Purchase Agreement that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest evidenced by the 2007 Certificates under

Section 103 of the Internal Revenue Code of 1986. In the event the City fails to comply with the foregoing tax covenant, interest evidenced by the 2007 Certificates may be includable in the gross income of the Owners thereof for federal tax purposes. See "TAX MATTERS".

Secondary Market

There can be no guarantee that there will be a secondary market for the 2007 Certificates or, if a secondary market exists, that any 2007 Certificates can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price. No assurance can be given that the market price for the 2007 Certificates will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the 2007 Certificates for audit examination, or the course or result of any Internal Revenue Service audit or examination of the 2007 Certificates or obligations that present similar tax issues as the 2007 Certificates.

On May 21, 2007, the U.S. Supreme Court agreed to review *Davis v. Kentucky Dep't of Revenue of the Finance and Admin. Cabinet*, 197 S.W.3d 557 (2006), a decision holding that state statutes providing more favorable state income tax treatment to holders of debt issued by in-state government bodies than for debt issued by out-of-state government bodies violate the U.S. Constitution. If the decision is upheld, the marketability and market price for the 2007 Certificates may be affected. It is likely that the case will be heard by the U.S. Supreme Court before the end of the Court's session that ends June 30, 2008.

Potential Liability Associated with the Main Trunk Line

The City expects to finance rehabilitation of the main trunk line from the White Slough Facility to the City with proceeds of the 2007 Certificates. On October 17, 2007, the City Council declared a local state of emergency, dispensed with bidding requirements and authorized the City Manager to negotiate a contract change order with the contractor performing the Phase 3 work to include the pipeline rehabilitation. The City expects the pipeline rehabilitation to be complete by Summer 2008.

The City believes that it could be exposed to liability as a result of the current condition of the main trunk line. The 40-year-old concrete pipeline is badly deteriorated because of a chemical reaction in the sewage that produces sulfuric acid, which, over time, eats away at the top of the concrete pipe. In order to eliminate this exposure, the City has (i) marked the pipeline alignment; (ii) warned the owners of land under the alignment that the condition of the line could cause their land to be unstable and recommended that it be avoided; and (iii) fast-tracked the rehabilitation timeline to completion by June of 2008.

Based upon these measures, the City believes that any liability associated with the condition of the main trunk line will not adversely impact its ability to make the Installment Payments.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the City ("**Special Counsel**"), based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Installment Payment designated as and constituting interest paid by the City under the Installment Purchase Agreement and received by the Owners of the 2007 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "**Code**") and is exempt from State of California personal income taxes. Special Counsel is of the further opinion the portion of each Installment Payment designated as and constituting interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the 2007 Certificates is less than the amount to be paid at maturity of such 2007 Certificates (excluding amounts stated to be interest and payable at least annually over the term of such 2007 Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Owner thereof, is treated as interest with respect to the 2007 Certificates which is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2007 Certificates is the first price at which a substantial amount of such maturity of the 2007 Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2007 Certificates accrues daily over the term to maturity of such 2007 Certificates on the basis of constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2007 Certificates to determine taxable gain or loss upon disposition (including sale, prepayment, or payment at maturity) of such 2007 Certificates. Owners of the 2007 Certificates should consult their own tax advisors with respect to the tax consequences of ownership of 2007 Certificates with original issue discount, including the treatment of Owners who do not purchase such 2007 Certificates in the original offering to the public at the first price at which a substantial amount of such 2007 Certificates is sold to the public.

2007 Certificates purchased, whether at original execution and delivery or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("**Premium Certificates**") will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like the Premium Certificates, the interest evidenced by which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and an Owner's basis in a Premium Certificate, will be reduced by the amount of amortizable premium properly allocable to such Owner. Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on or evidenced by obligations such as the 2007 Certificates. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that the interest installments of the Installment Payments paid by the City under the Installment

Purchase Agreement and received by the Owners of the 2007 Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in such interest evidenced by the 2007 Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the 2007 Certificates. The opinion of Special Counsel assumes the accuracy of these representations and compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Counsel's attention after the date of execution and delivery of the 2007 Certificates may adversely affect the value of, or the tax status of interest evidenced by, the 2007 Certificates. Accordingly, the opinion of Special Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Counsel is of the opinion that the interest installments of the Installment Payments paid by the City under the Installment Purchase Agreement and received by the Owners of the 2007 Certificates are excluded from gross income for federal income tax purposes and are exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of the interest with respect to, the 2007 Certificates may otherwise affect an Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depend upon the particular tax status of the Owner or the Owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest evidenced by the 2007 Certificates to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners from realizing the full current benefit of the tax status of such interest. As one example, on May 21, 2007, the United States Supreme Court agreed to hear an appeal from a Kentucky state court which ruled that the United States Constitution prohibited the state from providing a tax exemption for interest on bonds issued by the state and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2007 Certificates. Prospective purchasers of the 2007 Certificates should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Counsel expresses no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel's judgment as to the proper treatment of the 2007 Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Special Counsel's engagement with respect to the 2007 Certificates ends with the execution and delivery of the 2007 Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the City or the Owners regarding the tax-exempt status of the 2007 Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Owners, would have little, if

any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2007 Certificates for audit, or the course or result of such audit, or an audit of obligations presenting similar tax issues may affect the market price for, or the marketability of, the 2007 Certificates, and may cause the City or the Owners to incur significant expense.

LITIGATION

No Litigation Relating to 2007 Certificates. To the knowledge of the City, there is no controversy or litigation of any nature now pending or threatened restraining or enjoining the execution and delivery of the 2007 Certificates, the Trust Agreement, the Installment Purchase Agreement or in any way contesting or affecting the validity of the 2007 Certificates or any proceedings of the City or the Corporation taken with respect to the execution and delivery thereof.

Litigation Relating to PCE, TCE. The City relies upon groundwater for providing potable water to its residents. The City first detected the chemicals Tetrachloroethylene ("PCE" or "PERC") and Trichloroethylene ("TCE") in the groundwater in 1989. It appears that this contamination was caused by releases into the environment over many decades by dozens of drycleaners and other businesses in the City. In 1996, the City negotiated a Comprehensive Joint Cooperative Agreement (the "**Cooperative Agreement**") with the California Environmental Protection Agency's Department of Toxic Substances Control ("**DTSC**"). Under the May 6, 1997 Cooperative Agreement, the City agreed to diligently prosecute environmental enforcement actions against responsible parties to compel them to investigate and remediate the contamination in order to protect the City's groundwater supply. Subsequent to the execution of the Cooperative Agreement, the City enacted the ill fated Municipal Environmental Response & Liability Ordinance ("**MERLO**") to support the City's lead enforcement role.

Thereafter, the City filed several enforcement actions. The primary one, entitled "The People of the State of California and the City of Lodi v. M&P Investments, et. al" U.S. District Court for the Eastern District of California, Case No. Civs-00-2441 FCD JFM", sought the abatement of a public nuisance and a nuisance per se and recovery of the City's cost of responding to that nuisance. Various counterclaims and cross-claims have been filed including claims against the City for its alleged contribution to the contamination. Although a trial date is set for October 2008, all but four of the defendant groups have agreed to settle with the City as further outlined below. During the course of the litigation, several events and judicial decisions negatively impacted the City's initial litigation strategy. First, the Courts ruled that (1) the City does not have authority to serve as lead enforcement agency under the Cooperative Agreement and (2) MERLO is preempted by State and Federal environmental legislation. In one of these matters, City of Lodi v. Unigard, Case No. C039076, the City suffered an adverse judgment and the court ordered the City to pay damages and attorney's fees. In another matter, City of Lodi v. Randtron, Case No. C037445, the City received a favorable judgment and an award of attorney's fees. These matters were appealed and on May 5, 2004, the Third District Court of Appeal issued opinions in both of the cases. In Unigard, the Court held that the information gathering provisions of the City's MERLO ordinance as enforced by the City were a violation of Unigard's civil rights and confirmed a \$288,000 judgment against the City. This liability was ultimately waived by Unigard in the Busy Bee Settlement discussed below. In Randtron, the

Court held that MERLO is preempted by California's Hazardous Substance Account Act and that the administrative abatement order issued to Randtron under MERLO was therefore void. In addition, the federal court in the M&P action determined that the City itself is a potentially responsible party for the contamination due to the alleged release and increased migration of certain of the contamination sources into the City's groundwater through the infrastructure of the System and the City's water enterprise (the "**Water System**"). As such, the City was exposed to potential liability for the clean-up as more fully described below.

Due to the complete failure of the City's former outside counsel's legal strategy, the City changed course and attorneys in 2004 and pursued settlements with the various potentially responsible parties. Of the five contamination plumes identified in the groundwater supply, the City has resolved four and is close to resolving the fifth. The first settlement came with respect to the Busy Bee Plume. The Busy Bee settlement fully funded a contract with a remediation company which is expected to fully remediate the site. In addition, the settlement funded a \$182,500 escrow account. In the event the contract fails to remediate the site, the escrow account can be used to cover the excess costs.

The City also settled with all but four groups of potentially responsible parties regarding the remaining four plumes and with its own insurance carriers, raising \$34.2 million toward the estimated \$49.5 million total cleanup cost. The settlements reached as of the date of this Official Statement leave the City obligated to fund the \$15.3 million remaining shortfall in clean-up costs. Settlements with the remaining defendants would reduce the City's potential clean-up liability.

However, the litigation program created several other liabilities for the City including the Lehman financing described below, litigation and consultant costs. To finance the litigation, the City and the Lodi Public Improvement Corporation entered into a financing arrangement with Lehman Brothers Inc. ("**Lehman**") in June 2000 entitled the Lodi Financing Corporation Environmental Abatement Program Variable Rate Certificates of Participation ("**2000 COPs**"). Lehman advanced \$15,625,000, which was repayable with interest accruing at the rate of "LIBOR" plus 20% per annum, adjusted quarterly and compounded annually. In 2004, litigation arose between Lehman and the City over the City's obligations under the 2000 COPs. The matter settled in 2005 with the City paying Lehman \$6 million to fully discharge its obligations under the 2000 COPs. The City also sued its former outside counsel, Envision Law Group ("**Envision**"), for the City of Lodi v. M&P Investments, et. al. litigation. Envision cross-claimed, alleging that the City owes it \$7.0 million dollars in accrued but unpaid legal fees, \$3.5 million in interest and 20% of all settlements that the City secured after Envision's termination. No trial date is scheduled but the City is confident that it will prevail, in which case the City would not be responsible for paying anything to Envision.

In 2005, City staff and outside consultants estimated that the cost of the City's potential liability arising from the PCE/TCE clean-up and related litigation that was not yet funded was \$45 million. Although this potential liability could be shared by the System and the Water System, the City determined to fund the unfunded costs through the Water System by raising water rates. Accordingly, Bartle Wells performed a rate analysis, and concluded that a \$10.50 average monthly rate increase, phased in over 2 years, would meet the City's unfunded potential liability. This \$10.50 average rate increase was adopted pursuant to Council Resolution 2005-203 on September 21, 2005, and is projected to raise \$2.7 million in additional revenue each year ("**Water Rate Increase Revenue**"). This rate increase was unsuccessfully challenged by citizen initiative in November 2006; the effort to repeal the water rate increase was defeated by a vote of 63.9% to 36.1%.

After concluding the various settlements described above, City staff and outside consultants concluded in mid-2007 that the City's potential liability arising from the PCE/TCE clean-up and related litigation that was not yet funded was actually \$35.46 million including a \$15 million contingency. The City expects that the Water Rate Increase Revenue described in the previous paragraph will be sufficient to cover the total unfunded potential liability. In this regard, it is important to note that (1) the clean-up costs are expected to be incurred over a 30-year period; and (2) the existing settlements will be sufficient to fund the capital needs related to the clean-up, leaving Water Rate Increase Revenue to fund the ongoing operations and maintenance expenses, repayment of an internal water fund loan and operating reserves.

The estimated future costs, immediately available sources of funds (excluding the \$2.7 million of Water Rate Increase Revenues that the City expects to be generated on an annual basis) and resulting unfunded potential City liability with respect to the PCE/TCE clean-up and related litigation is summarized below. **The City expects to fund the unfunded liability with Water Rate Increase Revenues and not with assets or revenues of the System.**

Costs:

<u>Item</u>	<u>Amount (in millions)</u>
Cleanup Costs (1)	\$49.5
Water Fund Loan (2)	12.5
Legal Fees	<u>1.66</u>
Total Costs	\$63.66

Available Sources of Funds:

M&P settlements	\$14.6
Insurance settlements (3)	<u>13.6</u>
Total Sources of Funds	28.2

Unfunded Potential City Exposure to be funded from Water Rate Increase Revenue	<u>\$35.46</u>
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- (1) Includes a \$15 million contingency.
 (2) Represents a loan from the Infrastructure Replacement Water Fund Account to the PCE Water Fund Account, which is now being repaid from Water Rate Increase Revenue.
 (3) Reflects use of \$6 million of the USF&G settlement to pay Lehman in connection with the 2000 COPs, as described above.

Potential Litigation Relating to Nitrate Levels. The City is investigating nitrate levels in the vicinity of the White Slough Facility. There are a number of potential nitrate sources in the area including dairy and farming operations. It is too early to determine the cause of the contamination or whether it will require remediation by the City or any other party. Given the current evidence, the RWQCB issued the City's most recent NPDES Permit in September 2007,

concluding that further investigation is needed. The cost of the investigation is factored into the City's current revenue model.

APPROVAL OF LEGALITY

The execution and delivery of the 2007 Certificates is subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, substantially in the form set forth as Appendix F. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by Jones Hall, A Professional Law Corporation, San Francisco, California, and for the City and the Corporation by the City Attorney of the City.

Payment of the fees and expenses of Special Counsel and Underwriters' Counsel is contingent upon execution and delivery of the 2007 Certificates.

RATINGS

Insured Ratings. Standard & Poor's and Fitch are expected to assign the 2007 Certificates the long-term ratings of "____" and "____," respectively, upon the delivery by the Insurer of the Policy guaranteeing the payment of the principal and interest evidenced by the 2007 Certificates when due.

Underlying Ratings. In addition, the 2007 Certificates have been assigned the underlying ratings, without regard to the Policy, of "A-" and "A-", respectively, by Standard & Poor's and Fitch.

General. The ratings reflect only the respective views of the rating agencies, and any explanation of the significance of such ratings may be obtained only from such rating agencies as follows: Standard & Poor's, 55 Water Street, 38th Floor, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. The City and the Insurer furnished to the rating agencies certain information and materials concerning the 2007 Certificates and themselves. Generally, rating agencies base their ratings on information and materials furnished to them and on investigations, studies and assumptions by the rating agencies. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, or either of them, if, in their respective judgments, circumstances so warrant. The City undertakes no responsibility to oppose any such revisions or withdrawal. Any downward revision or withdrawal of any rating may have an adverse effect on the market price of the 2007 Certificates.

FINANCIAL ADVISOR

Lamont Financial Services Corp. (the "**Financial Advisor**") has assisted the City with various matters relating to the planning, structuring and delivery of the 2007 Certificates. The Financial Advisor is a financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities. The Financial Advisor assumes no responsibility for the accuracy, completeness or fairness of this Official Statement. The

Financial Advisor will receive compensation from the City contingent upon the sale and delivery of the 2007 Certificates.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the 2007 Certificates at a price of \$_____, representing the aggregate principal amount of the 2007 Certificates *plus* \$_____ net original issue premium and *less* \$_____ Underwriters' discount).

The Purchase Contract for the 2007 Certificates provides that the Underwriters will purchase all the 2007 Certificates, if any are purchased. The 2007 Certificates may be offered and sold by the Underwriters to certain dealers and others at prices lower than the public offering price stated on the inside cover page of this Official Statement, and such public offering price may be changed, from time to time, by the Underwriters.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore Inc., Denver, Colorado (the "**Verification Agent**"), will verify the arithmetical accuracy of certain computations included in the schedules provided by the underwriters relating to discharge of the 1991 Installment Payments and the 1991 Certificates. See "THE FINANCING PLAN".

The Verification Agent has restricted its procedures to verification of the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

EXECUTION AND DELIVERY

The execution and delivery of this Official Statement has been duly authorized by the City.

CITY OF LODI, CALIFORNIA

By: _____
City Manager

APPENDIX A

THE CITY OF LODI

The 2007 Certificates are not secured by the faith and credit or the taxing power of the City. The economic and financial data regarding the City of Lodi and the County of San Joaquin set forth in this section are included for information purposes only, to give a more complete description of the service area of the City's System.

General

The City of Lodi, California ("Lodi" or the "City") was incorporated as a General Law City on December 6, 1906. The City is located in the San Joaquin Valley between Stockton, 2 miles to the south, and Sacramento, 35 miles to the north, and adjacent to State Route 99. The city is located on a main line of the Union Pacific Railroad and is within 5 miles of Interstate 5. The City population is 63,395 (as of Jan. 1, 2007 estimate by the California Department of Finance) and is contained in an area of approximately 13 square miles. The City has grown steadily since incorporation in 1906 and in 2006 approved development proposals that will add 3,509 dwelling units in newly annexed areas to the south and west. The City's growth is provided for in both the General Plan and the City's growth-control ordinance that allows an increase in population of 2% per year until the growth limits are reached.

The City provides a wide range of municipal services, including public safety (police, fire and graffiti abatement), public utilities services (electric, water and sewer), transportation services (streets, flood control and transit), leisure, cultural and social services (parks and recreation, library, and community center), and general government services (management, human resources administration, financial administration, building maintenance and equipment maintenance).

The City has a broad-based economy that, unlike many cities in the San Joaquin Valley, does not simply depend upon agriculture, one reason the City's unemployment rate averages roughly 2 percent less than San Joaquin County's as a whole. The region's growing reputation for its fine wines has boosted its image as a tourist destination, and the city's downtown, enhanced by a \$25 million public and private investment, is a model for other mid-sized cities seeking to revitalize their downtowns. As it transitions to an entertainment, white-linen dining and wine-tasting destination, downtown Lodi serves as a hub for the 60 wineries located within a 10-mile radius. Sales at dining and drinking establishments grew by 31 percent from Fiscal Year 2002-2003 to 2006-2007. In 2006, the City partnered with three local wineries outside the City limits, allowing them to use the wastewater plant's capacity in return for opening a downtown wine-tasting room. Two other boutique wineries recently moved their winemaking operations within the City limits.

Additionally, the City recently agreed to begin accepting waste from Flag City, a growing collection of transportation service businesses, hotels and restaurants, at Interstate 5 and Highway 12 that is five miles west of the City limits. San Joaquin County, which is responsible for treating Flag City's waste, recently agreed to pay Lodi more than \$6.5 million in connection fees and approximately \$160,000 a year to send its wastewater to the City's White Slough Water Pollution Control Facility for treatment.

The City has a diversified industrial base, ranging from plastics industries that are industry leaders in producing pipes for irrigation and drainage, and injection-molded products, to

Cottage Bakery, which sells specialty baked goods and frozen dough to customers nationwide. Still, agriculture plays a large role in the city's economy. In addition to wines, processed foods, nuts, fruit, vegetables and milk are major commodities of the Lodi area and supply the materials for local food processors and packagers. These products support the operations of General Mills and private-label cannery Pacific Coast Producers, among other companies. A variety of Lodi businesses serve the surrounding farms and vineyards with irrigation supplies and specialty machinery.

In addition, the City has a wide range of other financially sound businesses. These companies range in size from a few dozen to hundreds of employees and produce a wide variety of services and products. One of them, health insurance company Blue Shield of California, broke ground this year on a new claims processing center that will house its current 800-employee workforce and allow it to expand to 1,500 workers.

Municipal Government

City Council. All powers of the City are vested in the City Council which is empowered to perform all duties of and obligations of the City as imposed by State law. The City has a five-member City Council composed of members elected at large. Each council member is elected for four years with staggering terms.

Biographies of the members of the City Council are set forth below:

BOB JOHNSON, MAYOR, was elected to the Lodi City Council in November 2004. Mr. Johnson attained the rank of captain in the United States Marine Corps and, following his military service, was employed for more than 20 years in the financial industry in a variety of marketing and management positions in New York, Los Angeles, and San Francisco. Most recently, he has been a self-employed real estate appraiser in the Central Valley. Mr. Johnson received a Bachelor of Arts degree from St. Bonaventure University.

JOANNE MOUNCE, MAYOR PRO TEMPORE, was elected to the Lodi City Council in November 2004. Ms. Mounce received an Accounting Certificate from South Lake Tahoe Community College and her Associates Degree with Honors from San Joaquin Delta College. With 23 years of accounting experience, Ms. Mounce currently works with Dougherty CPAs, Inc., a Stockton certified public accountant firm.

LARRY D. HANSEN, COUNCIL MEMBER, was elected to the Lodi City Council in November 2002 and re-elected in November 2006. Mr. Hansen is a United States Navy veteran and obtained his Master of Public Administration degree in 1993 from California State University, Stanislaus. Mr. Hansen had a 30-year career with the City of Lodi Police Department, serving as Chief of Police from 1993 to 2000.

SUSAN HITCHCOCK, COUNCIL MEMBER, was elected to the Lodi City Council in November 1998 and re-elected in 2002 and 2006. Ms. Hitchcock received a Bachelor of Science in Business Administration from California State University, Sacramento, in 1979 and a teaching credential in 1991. She also received a Master of Arts in School Administration and an Administrative Services credential from University of the Pacific in 1997. Ms. Hitchcock worked as a commercial loan officer for eight years. She has been employed by the Lodi Unified School District since 1991 and is currently the Principal of Clairmont Elementary School.

PHIL KATZAKIAN, COUNCIL MEMBER, was elected to the Lodi City Council in November 2006. Mr. Katzakian is president and co-owner of Lodi Printing, an 83-year-old business owned by the Katzakian family since 1948. Mr. Katzakian attended San Joaquin Delta College and California State University, Sacramento, before being hired by Lodi Vintners, a Lodi-area winery. He spent five years with the company, eventually becoming General Manager, before leaving to open an automotive repair business. Five years later, Mr. Katzakian joined Lodi Printing.

Investment Portfolio

All funds of the City, including surplus funds of the System, are invested by the City in accordance with the investment guidelines of the California Government Code (Sections 53601 and 53635) and the City's Investment Policy, which is presented annually to the City Council for approval.

Investment Policy. Pursuant to the Investment Policy, the City strives to maintain a level of investment of all idle funds, less required reserves, as near 100% as possible, through daily and projected cash flow determinations. The City's cash management system is designed to monitor and forecast expenditures and revenue accurately in order to enable the City to invest funds to the fullest extent possible.

Idle cash management and investment transactions are the responsibility of the Finance Director/City Treasurer. The Investment Policy, as adopted by the City Council on October 1, 2003, permits investment in the following: U.S. Treasury obligations (bills, notes and bonds); U.S. Government Agency securities and instrumentalities; bankers acceptances; certificates of deposit; negotiable certificates of deposit; commercial paper; California State Local Agency Investment Fund; passbook deposits; mutual funds; and medium term notes. The Investment Policy provides that safety is given the highest priority, followed by liquidity and yield. Investments are selected to achieve a "market average" rate of return, or the annual rate of return on the one-year U.S. Treasury Bill.

The Investment Policy may be changed at any time at the discretion of the City Council (subject to the State of California law provisions relating to authorized investments) and as the California Government Code is amended. There can be no assurance, therefore, that the State of California law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under such State law or the Investment Policy, or that the objectives of the City with respect to investments will not change. All investments, including the Authorized Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Trust Agreement and the Installment Purchase Agreement, or other amounts held by the City, could have a material adverse effect on the City's finances.

Investment Results as of June 30, 2007. A summary of the City's pooled investment portfolio as of June 30, 2007 is set forth below.

CITY OF LODI
Investment Portfolio Summary
(as of June 30, 2007)

<u>Type of Investment</u>	<u>Amount</u>	<u>Percent of Total</u>
Local Agency Investment Fund (City)	\$19,648,971.23	48.2%
LAIF (Lodi Public Improvement Corporation)	3,439,412.57	8.4
Certificates of Deposit	300,000.00	0.7
Passbook/Checking Accounts	<u>17,398,013.40</u>	<u>42.7</u>
Total	\$40,786,397.20	100.0%

Source: City of Lodi.

Population

The following chart indicates the growth in the population of the City since 1998.

CITY OF LODI
POPULATION
For Years 1998 through 2007

<u>Year (as of January 1)</u>	<u>Population</u>
1998	54,800
1999	56,000
2000	56,512
2001	58,353
2002	59,835
2003	60,951
2004	61,848
2005	62,520
2006	62,828
2007	63,395

Source: State of California, Department of Finance.

Employment in the City was 27,900 in 2002 and 29,600 in 2006, representing a 6.1% increase over the five-year period. The unemployment rate ranged from 5.5% in 2006 to 6.9% in 2003. Statewide unemployment rates were 4.9% in 2006 and 6.8% in 2003.

CITY OF LODI
EMPLOYMENT, UNEMPLOYMENT AND LABOR FORCE
Averages for each of the Calendar Years 1999-2003

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Employment	27,900	28,300	28,800	29,300	29,600
Unemployment	2,000	2,100	2,000	1,800	1,700
Civilian Labor Force	29,900	30,400	30,800	31,100	31,300
Unemployment Rate	6.6%	6.9%	6.5%	5.9%	5.5%
State Unemployment Rate	6.7%	6.8%	6.2%	5.4%	4.9%

Source: State of California, Employment Development Department.

Major Employers

There are several manufacturing plants in the community producing a wide variety of products: cereals, food mixes, wines, rubber products, foundry items, recreational vehicle components, electronic substrates, plastic piping and injection molded products. In addition, a number of small businesses are located within the City. The main businesses in the City, however, are food processing and plastics.

The largest employers in Lodi as of September 24, 2007 are as follows:

CITY OF LODI
LARGEST EMPLOYERS

<u>Employer</u>	<u>Business</u>	<u>Number of Employees</u>
Lodi Unified School District	Education	3,292
Lodi Memorial Hospital	Health Care	1,320
Blue Shield	Insurance Claims Processing	800
Cottage Bakery	Baked Goods	700
City of Lodi	Government	458
General Mills	Cereals and Food Mixes	430
Pacific Coast Producers	Fruit Canning	400-1,200
Farmers & Merchants Bank	Banking	340
Wal-Mart	Retail	310
Valley Towing	Trailer Hitch Manufacturing	234
Target	Retail	200
Dart Container	Food Packaging Manufacturing	180

Source: City of Lodi, City Manager's Office.

Building Permit Activity

The following table shows the value of building permits issued in the City between 2002 and 2006.

**CITY OF LODI
BUILDING PERMIT VALUATION
(in thousands)
for Calendar Years 2002 through 2006**

	2002	2003	2004	2005	2006
Residential Valuation					
Single Family	\$61,144	\$54,351	\$52,189	\$81,449	\$19,344
Multifamily	934	495	0	1,497	0
TOTAL	\$62,077	\$54,846	\$52,189	\$82,946	\$19,344
New Dwelling Units					
Single Family	305	274	255	371	96
Multiple Family	6	4	0	14	0
TOTAL	311	278	255	385	96

Source: City of Lodi, Community Development Department

Taxable Sales

The following table indicates taxable transactions in the City by type of business during the fiscal years 2002-03 through 2006-07. The table does not reflect the allocation to the City of County- and State-wide sales taxes in fiscal years 2002-03 (\$940,951), 2003-04 (\$786,756), 2004-05 (\$938,249), 2005-06 (\$1,006,486) and 2006-07 (\$1,037,937).

**CITY OF LODI
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
for Fiscal Years 2002-03 through 2006-07
(in Thousands of Dollars)**

Category	2002-03 Fiscal Year	2003-2004 Fiscal Year	2004-2005 Fiscal Year	2005-2006 Fiscal Year	2006-2007 Fiscal Year
Apparel Stores	13,298	17,695	17,551	17,287	17,691
Auto Dealers/Supplies	203,666	197,817	201,348	214,248	198,619
Building Materials	47,942	52,791	75,408	101,804	78,313
Drug Stores	16,105	15,165	14,088	14,076	14,419
Eating/Drinking Places	65,130	66,933	72,659	80,615	85,190
Food Stores	38,095	41,647	40,467	45,291	42,282
Furniture/Appliances	26,907	27,503	27,797	29,866	28,545
General Merchandise	130,608	132,491	129,136	130,739	129,181
Other Retail Stores	44,552	45,558	48,411	51,280	55,137
Packaged Liquor	9,132	10,321	12,729	12,799	12,911
Service Stations	<u>55,769</u>	<u>55,177</u>	<u>64,663</u>	<u>73,422</u>	<u>80,837</u>
Total Retail Outlets	651,204	663,099	704,257	771,427	743,126
All Other Outlets	<u>117,237</u>	<u>115,104</u>	<u>129,776</u>	<u>139,768</u>	<u>162,952</u>
Total Sales All Outlets	768,442	778,203	834,033	911,195	906,078

Source: California State Board of Equalization

Income

The following table, based on data reported in the annual publication "Survey of Buying Power" published by Sales and Marketing Management, summarizes the median household effective buying income for the City, the County, the State and the nation for the years 2002 through 2006.

The following table compares the median household effective buying income for the City, the County, the State and the nation.

MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME

Year	City of Lodi	County of San Joaquin	State of California	United States
2002	35,315	37,577	42,484	38,035
2003	35,577	37,988	42,924	38,201
2004	36,529	39,040	43,915	39,324
2005	37,288	39,956	44,681	40,529
2006	38,540	41,693	46,275	41,255

Source: Sales & Marketing Management Survey of Buying Power for 2002 through 2004; Claritas Demographics for 2005 & 2006.

Agriculture

Lodi is a worldwide agricultural shipping center for the San Joaquin Valley. The surrounding prime agricultural land is the nation's largest producer of premium wine grapes. Lodi businesses process and ship local produce ranging from grapes to cherries and asparagus.

Community Facilities

The City has a central library, one community center, 26 parks and five specific use facilities, covering 263 developed acres and 110 undeveloped acres, and 16 playgrounds. Lodi Lake Park is connected to the Mokelumne River and features boating, fishing, beach swimming, boat rentals, nature walks, group picnic sites, an RV park and the Discovery Nature Center. Micke Grove Park, a San Joaquin County park, is located between Lodi and Stockton. The park is home to a Japanese garden, the San Joaquin Historical Museum, rides, picnic areas and a five-acre zoo featuring mammals, birds, reptiles and invertebrates.

Community recreation programs cover a wide range of interests and activities including youth and adult sports and special interest classes, youth-at-risk programs, aquatics, special events, camps/clinics and tournaments.

Lodi Memorial Hospital offers a 181-bed, nonprofit, independent, acute-care hospital to the residents of the City and surrounding community. Its mission is to provide quality medical care, education and support services to the community. Two hospital campuses and six satellite clinics are used to provide a variety of inpatient, outpatient, urgent, emergency and primary care

services. The hospital broke ground in 2007 on a \$200 million expansion and upgrade plan that will result in remodeled rooms and the addition of an 80-bed wing.

Housing

The City of Lodi housing market offers a blend of older neighborhoods and newer executive developments.

CITY OF LODI Median-Priced Home (For August of Year)

2003	\$274,000
2004	326,000
2005	397,000
2006	480,000
2007	418,000

Source: Coldwell Banker Grupe-TrendGraphix

Education

The Lodi Unified School District provides K-12 and special education programs. The area also is served by several private and parochial schools. The University of the Pacific, San Joaquin Delta College, California State University, Stanislaus-Stockton campus, and the University of San Francisco satellite center are all within a 20-minute drive of the city. The University of California, Davis and California State University, Sacramento, and the University of Southern California satellite center are within an hour's drive of the City. Additionally, San Joaquin Delta College is developing plans to build a satellite learning center that would be annexed into the city. The plans include a housing development.

Transportation

The City is served by Interstate 5 and State Highways 12 and 99 and is located on the main line of the Union Pacific Railroad. Lodi has Amtrak passenger rail service and local, regional and national bus service. A deep-water seaport and airport with commercial passenger travel are located approximately 15 miles south in Stockton.

Estimated Direct and Overlapping Bonded Debt

The estimated direct and overlapping bonded debt of the City as of ____ 1, 2007 is set forth below.

CITY OF LODI ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT as of ____ 1, 2007

[to come]

Source: California Municipal Statistics, Inc.

Assessed Valuation and Tax Collections

Taxes are levied for each fiscal Year on taxable real and personal property that is situated in the City as of the preceding March 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and real property having a tax lien that is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to the delinquent taxes on property of the unsecured roll, and an additional penalty of 1.5% per month begins to accrue commencing on November 1 of the Fiscal year. Collections of delinquent unsecured taxes is the responsibility of the County of San Joaquin using the several means legally available to it.

CITY OF LODI ASSESSED VALUATIONS For Fiscal Years 2002 through 2006 (In thousands)

Fiscal Year	Land	Improvements	Personal Property	Total	Less Exemptions	Net Assessed Value
2001-2002	889,262	2,164,121	245,611	3,298,994	190,252	3,108,742
2002-2003	960,166	2,366,887	265,339	3,592,392	200,957	3,391,435
2003-2004	1,027,462	2,549,860	248,472	3,825,794	212,102	3,613,692
2004-2005	1,107,776	2,739,061	249,812	4,096,649	217,077	3,879,572
2005-2006	1,226,293	2,989,575	258,035	4,473,903	220,590	4,253,313

Source: City of Lodi audited financial statements.

In 1993, the City made an agreement with San Joaquin County to participate the Teeter Plan pursuant to provisions of Sections 4701-4717 of the California Revenue and Taxation Code. The Teeter Plan is an alternative method of apportioning property tax money. Pursuant to those sections the accounts of all political subdivisions that levy taxes on the County tax rolls are credited with 100% of their respective tax levies regardless of actually payments and delinquencies. The cities covered under the plan receive 95% of the property taxes in advance from the County and the 5% remaining after reconciling the cities' balances at June 30. As part of the agreement, the county keeps the penalties and interest on the delinquent taxes.

Ten Largest Locally Secured Taxpayers

The following table shows the ten largest locally secured taxpayers of the City for the Fiscal year ended June 30, 2006.

CITY OF LODI
TEN LARGEST LOCALLY SECURED TAXPAYERS
Fiscal Year Ended June 30, 2006

	<u>Name</u>	<u>Assessed Valuation</u>
1.	General Mills, Inc.	152,102,000
2.	Pacific Coast Producers	43,068,000
3.	Pacific Coast Producers Corp.	34,267,000
4.	Cottage Bakery Inc.	25,341,000
5.	Kristmont West	21,961,000
6.	Parineh's Exchange 2004 LLC	19,539,000
7.	Certainteed Corp.	18,842,000
8.	Dart Container Corp.	17,625,000
9.	Fountains At Lodi LLC	13,031,000
10.	Carl D. Panattoni, et al	12,984,000
	TOTAL	<u>\$358,760,000</u>

Source: San Joaquin County Assessor's Office.

APPENDIX B

**EXCERPTS OF AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

APPENDIX C

BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal, interest and other payments on the Certificates to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Certificates (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Certificates (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Certificates"). The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Certificates, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned

subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

4. To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

APPENDIX D
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX E

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX F

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

Upon delivery of the Certificates, Orrick, Herrington & Sutcliffe LLP, Special Counsel to the City, proposes to render its final approving opinion with respect to the Certificates in substantially the following form:

Date of Closing

City of Lodi
221 West Pine Street
Lodi, California 95240

Wastewater System Revenue Certificates of Participation,
2007 Series A
(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel to the City of Lodi, California (the "City") in connection with the execution and delivery of the \$_____ aggregate principal amount of Wastewater System Revenue Certificates of Participation, 2007 Series A (the "Certificates"). The Certificates evidence the proportionate interests of the owners thereof in certain payments (the "Installment Payments") to be made by the City under the terms of an Installment Purchase Agreement, dated as of December 1, 2007 (the "Agreement"), between the City and the Lodi Public Improvement Corporation (the "Corporation"). The Certificates have been executed and delivered pursuant to a Trust Agreement, dated as of December 1, 2007 (the "Trust Agreement"), by and between the Corporation and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, the Agreement, the Tax Certificate and Agreement relating to the Certificates (the "Tax Certificate"), opinions of counsel to the City, the Corporation and the Trustee, certificates of the City, the Corporation, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without

undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Agreement and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest components of the Installment Payments to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Certificates, the Trust Agreement, the Agreement and the Tax Certificate, and their enforceability, may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against cities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Agreement or the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the City.
2. The obligation of the City to make the Installment Payments pursuant to the terms of the Agreement constitutes a valid and binding special obligation of the City, payable solely from the System Net Revenues of the City's Wastewater System, as provided in the Agreement. The general fund of the City is not liable for, and neither the faith and credit nor the taxing power of the City is pledged to, the payment of the Installment Payments.
3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.
4. The portion of each Installment Payment designated as and constituting interest paid by the City under the Agreement and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. The portion of each Installment Payment designated as and constituting interest paid by the City under the Agreement and received by the registered owners of the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates.

APPENDIX G

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

Presentation to City Council



City of Lodi Wastewater System Revenue Certificates of Participation

October 2007



STONE &
YOUNGBERG

2007 Financing

■ Proposed financing

- Not-to-exceed \$35 million Wastewater Revenue Certificates of Participation (COPs)
- Raise \$21 million for Phase 3 treatment plant improvements and pipeline rehabilitation
- Refund the outstanding 1991 Certificates of Participation callable on February 1, 2008

■ Security

- Net System Revenues
 - ◆ All wastewater system revenues (customer service charges, connection fees, interest income, etc.) less operating and maintenance costs
 - ◆ City administrative overhead is payable after debt service
- Rate Covenant
 - ◆ City promises to charge sufficient wastewater rates to pay debt service with a coverage cushion
 - ◆ 110% coverage from all net revenues AND 100% coverage excluding any transfers from the Rate Stabilization Fund (used to manage cashflow and debt service coverage)
- Debt Service Reserve Requirement
 - ◆ Roughly equal to one year of debt service payments

Ratings and Bond Insurance

■ Ratings

- Standard & Poor's and Fitch Ratings both provided ratings of "A-" with "stable" outlook
 - ◆ Consistent with "A-" rating on outstanding 2003 Bonds and 2004 COPs

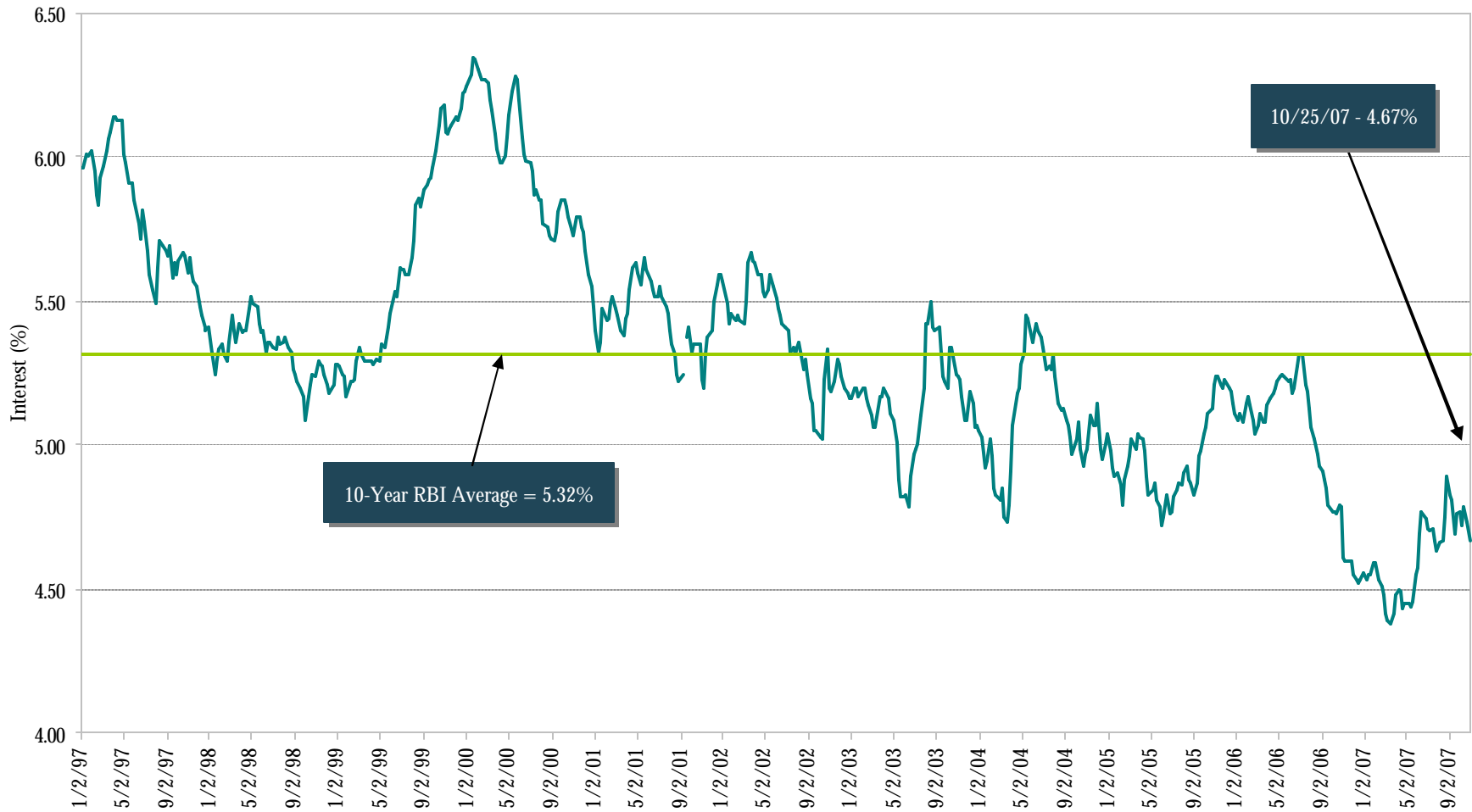
■ Bond Insurance and Surety Reserve

- Bids solicited from seven AAA-rated firms
 - ◆ Ambac, Assured Guaranty, CIFG, FGIC, FSA, MBIA, and XL Capital provided bids
 - ◆ FSA was the low, winning bid
- Insurance cost
 - ◆ 19.4 basis points (0.194%) times total principal and interest on the COPs
 - ◆ Total up-front premium would be ~ \$121,055 paid from COP proceeds
- Insurance benefit
 - ◆ COPs would be sold at "AAA" interest rates instead of "A-" rates
 - ◆ Total debt service savings would be approximately \$1.26 million or \$42,000 annually
 - ◆ On an "economic" basis, savings would be roughly \$670,000 net of insurance cost
- Surety Reserve
 - ◆ Reserve policy may be purchased in lieu of a cash-funded debt service reserve
 - ◆ Total up front premium of \$39,232 equal to 1.5% of total reserve requirement
 - ◆ Use of surety reserve reduces principal amount of borrowing by roughly \$2.6 million

Interest Rate Trends

Bond Buyer 25-Bond Revenue Index

Tax-Exempt Bonds Maturing in 30 Years with Average Rating of A1/A+
Weekly Period from January 2, 1997 to October 25, 2007



Financing Details

■ Estimated Borrowing Costs

- Interest rates for 2007 COPs will be set on day of pricing
- Borrowing cost estimated at 4.75% as of October 29, 2007

■ Refunding of 1991 COPs

- \$8.57 million outstanding at an interest rate of 6.7%
 - ◆ COPs will be paid off in full on February 1, 2008
 - ◆ Escrow cost includes principal plus 1.5% redemption premium plus accrued interest
- Savings conservatively estimated at \$966,000 or 11% of outstanding principal

■ Preliminary Estimated Sources and Uses

Sources

Par Amount	\$30,550,000
------------	--------------

Uses

Refunding Escrow	8,990,000
Project Fund (Phase 3 + Pipeline Rehab)	21,000,000
Insurance & Surety Reserve	160,000
Costs of Issuance & Underwriters' Discount	<u>400,000</u>
	\$30,550,000



Who's Who on the Financing Team?

■ **City of Lodi**

- Pledges Net System Revenues to cover Installment Sale Payments

■ **Lodi Public Improvement Corporation**

- Assigns rights to Installment Payments to trustee and COP-owners

■ **Rate Consultant (HF&H Consultants)**

- Analyzes wastewater rate structure and estimates future revenues

■ **Bond Counsel (Orrick Herrington & Sutcliffe)**

- Provides legal advise to City on financing and drafts primary legal documents

■ **Financial Advisor (Lamont Financial)**

- Advises City on financial options and COP pricing

■ **Underwriters (Stone & Youngberg and Bear Stearns)**

- Structures financing, sets interest rates and prices and sells COPs to investors

■ **Underwriters' Counsel (Jones Hall)**

- Prepares Official Statement describing the security and its risks for investors

■ **Trustee (BNY Western Trust)**

- Administers COPs payments and redemptions, holds certain funds in trust for COP owners



Approvals Requested

■ Resolutions

- City and Lodi Public Improvement Corporation each authorize issuance of the COPs and approve the legal documents and POS in substantially final form

■ Preliminary Official Statement (POS)

- Describes security and discloses potential risks for investors
- Should be complete and accurate with no material omissions or misstatements

■ Continuing Disclosure Certificate

- Promises ongoing information to investors annually over life of the COPs

■ Trust Agreement

- Lays out legal structure of COPs and specifies payment dates, flow of funds, default remedies, redemption provisions, and covenants of the issuer

■ Installment Purchase Agreement

- Pledges net wastewater revenues to purchase of facilities through installment payments
- Specifies City's rate covenant, other covenants and conditions for additional parity debt

Approvals Requested (Continued)

■ **Escrow Agreement**

- Provides terms of escrow to refund and defease the outstanding 1991 COPs

■ **Purchase Agreement**

- Contract signed by City/Corporation and Underwriters at time of COP sale
- Locks in interest rates and principal amount of COPs

■ **Supplemental Indentures related to Outstanding Wastewater Debt**

- Modifies definitions of “Operating and Maintenance Costs” in documents for 2003 CSCDA Bonds and 2004 COPs
- Reflects change in treatment of administrative overhead and PILOT payments

Wrap Up and Next Steps

■ Questions?

■ Schedule of Next Steps

- November 7th Council approval
- November 8th Print preliminary official statement (POS)
- November 15th COP pricing
- December 5th COP closing and delivery of funds